INSIDE: A SPECIAL REPORT ON THE PARADOX OF LUXURY GOODS

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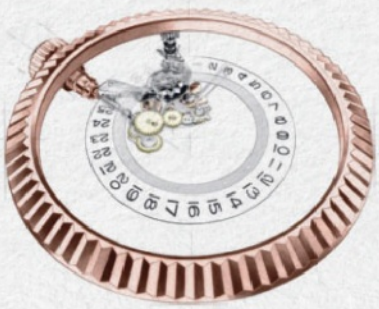
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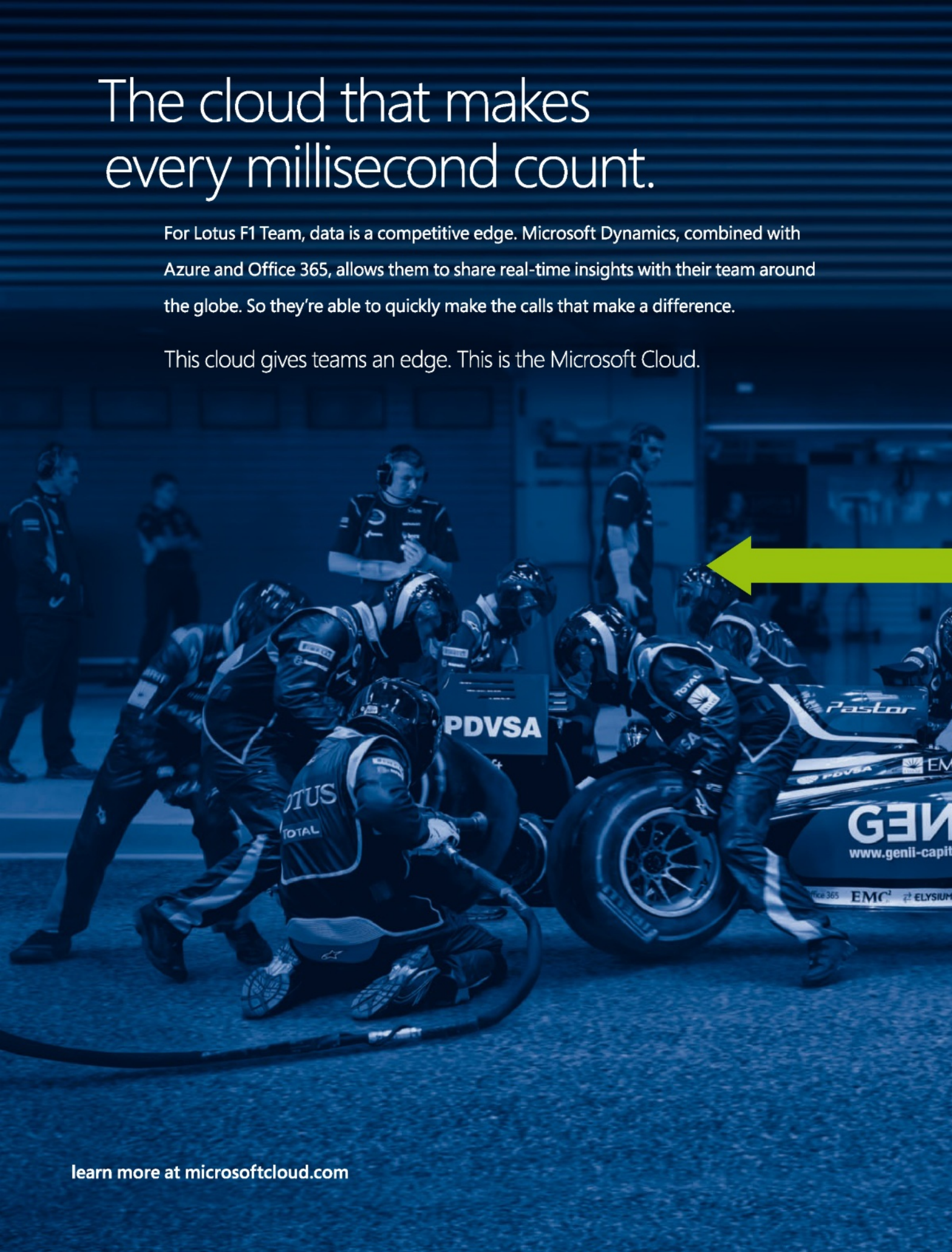


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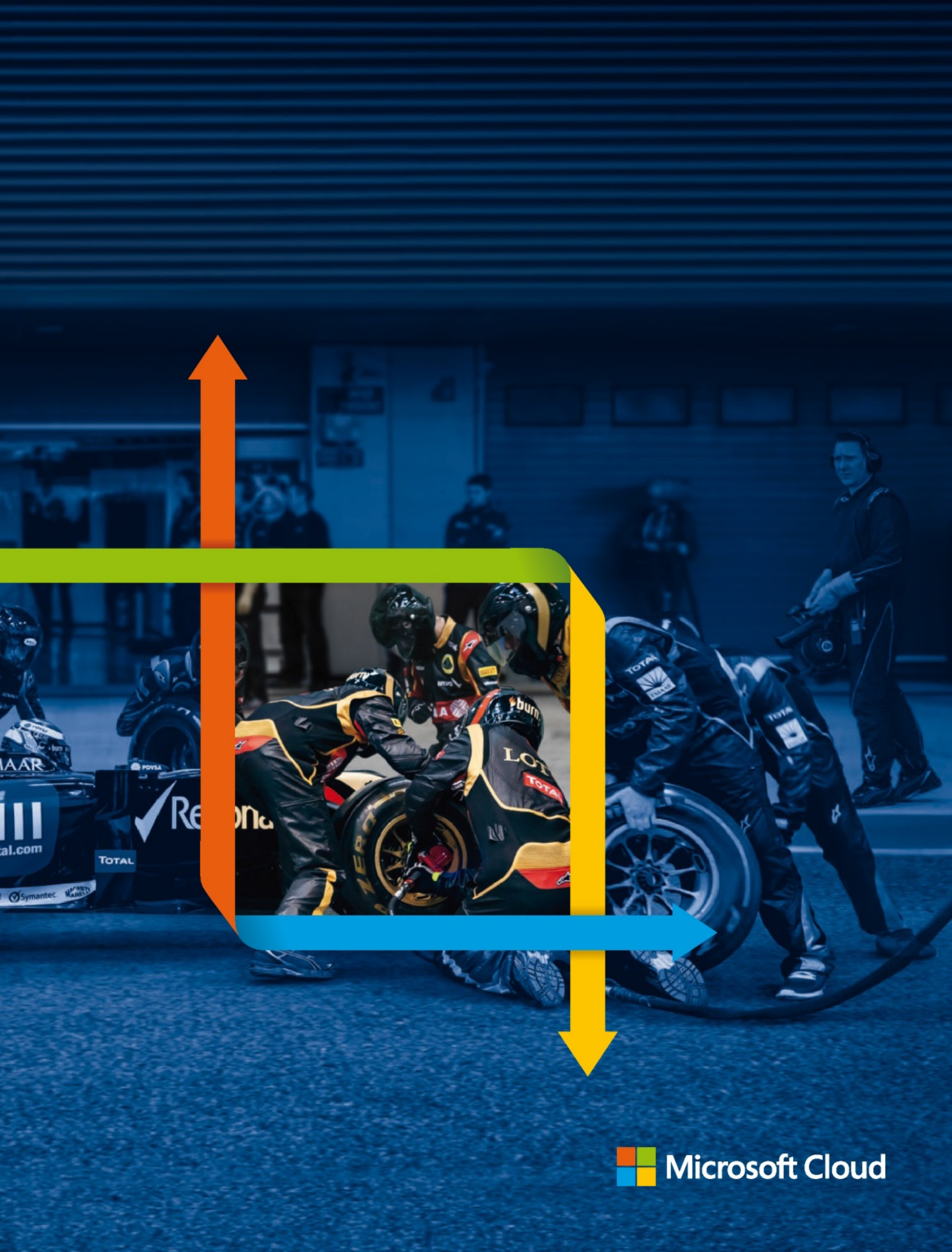
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Politics



America's Senate Intelligence Committee released a controversial report into the CIA's interrogation techniques, which revealed some more details about the **torture** of suspected terrorists after the September 11th 2001 attacks, and claimed that the CIA had not properly briefed Congress. Some prisoners were subjected to near drownings, week-long periods of sleep deprivation and "rectal hydration".

American **special forces** attempted to free two men, an American and a South African, who were being held captive by the local al-Qaeda affiliate in Yemen. Both hostages were apparently shot by their kidnappers in the mêlée and died from their injuries.

Democratic and Republican leaders in Congress unveiled a $1 trillion **budget bill** they have crafted to keep most of the government running until September 2015. As well as laying out the spending commitments to federal departments, the bill also expands the amount that individual donors can give to political parties. It also blocks the legalisation of marijuana in Washington, DC, that voters in the city approved last month.

As expected, Bill Cassidy won a Senate seat in **Louisiana** for the Republicans, beating Mary Landrieu, the Democratic incumbent, by 56% to 44% in a run-off election and leaving her party without any senators or governors in the Deep South. The Republicans will have a 54-46 majority in the Senate when the new Congress convenes in January.

The bankruptcy under which **Detroit** has operated for over a year was lifted following the approval of its debt-restructuring plan. This allows the mayor and council to take back control from the city's emergency manager. The city still faces many problems and a commission will oversee its finances for years to come.

Mission accomplished?

After 13 years in **Afghanistan**, NATO-led combat missions formally ended with a flag-lowering ceremony in Kabul, the capital. About 13,000, mainly American, troops will remain to train Afghan forces, and to help them in combat operations with air support and medical evacuation.

Police in **Hong Kong** began clearing the main camp set up by demonstrators more than ten weeks ago to call for free elections in the Chinese territory. Some protesters wanted to maintain their occupation of the area to press their demands, but others said it was time to leave.



China's Communist Party expelled Zhou Yongkang, who retired two years ago from its most powerful body, the Politburo Standing Committee. It accused him of bribery, adultery with several women and leaking secrets. Mr Zhou is now all but certain to become the most senior figure to be put on trial in China since the Gang of Four in 1980.

Naming and shaming

Brazil's National Truth Commission named 377 people it says are responsible for 434 murders and disappearances during the military regime that ruled from 1964 to 1985. About 100 of the culprits are still alive, but under an amnesty law they cannot be prosecuted. Many fewer people were murdered by Brazil's dictatorship than were killed by other Latin American regimes, such as those of Argentina and Chile.

The United States Congress voted in favour of sanctions targeting members of **Venezuela's** government. Officials who violated the rights of anti-government demonstrators during last February's protests could be denied visas and have their assets frozen. The Obama administration, which had opposed sanctions, recently signalled that it might agree to them.

Uruguay accepted six inmates freed by the United States government from the detention centre in **Guantánamo Bay**. They had been imprisoned for 12 years for alleged links to al-Qaeda but were never charged. Uruguay's president, José Mujica, had been imprisoned by the country's military regime.

Paranoia and power

Robert Mugabe, who has been president of **Zimbabwe** since independence in 1980, sacked his vice-president, Joice Mujuru, and seven ministers in a purge that cleared the way for Emmerson Mnangagwa, the hardline former justice minister, to become his likeliest successor. Ms Mujuru denied accusations of corruption and plotting to kill Mr Mugabe.

A French hostage held by jihadists in **Mali** was freed after reportedly being swapped for two prisoners held in jail in Mali. He had been kidnapped in 2011 along with another Frenchman who was killed by his captors, Al-Qaeda in the Islamic Maghreb, in 2013.

A senior **Palestinian** official attending a protest against land confiscations in the West Bank died after a confrontation with Israeli soldiers. Medical staff said that Ziad Abu Ein had inhaled tear gas; video showed him being grabbed by the neck by a member of the security forces. The Israeli army said it would investigate.

December surprise



Greece set off new jitters in the euro zone when it brought forward its presidential election to later this month. The markets fretted that if parliament fails to choose a president, a general election must be held, which many fear would be won by Syriza, an anti-austerity party. The Athens stockmarket fell by 13% and yields on Greek bonds soared.

Ukraine's government staged a "day of silence", a renewed ceasefire with pro-Russian rebels. The hope is that this may be a prelude to renewed peace talks. Previous ceasefires have repeatedly been broken.

Germany's Christian Democrats re-elected **Angela Merkel** as their leader without any opposition. She has led the party for 14 years.

The **French cabinet** gave its approval to a package of liberalising measures known after the new economy minister as the *loi Macron*. But the law, which will have a hard time gaining parliamentary approval, has already been watered down by the government.

A last-minute deal was reached in the **European Union** on its 2015 budget, conceding a slight budgetary increase to placate the spend-thrift European Parliament.

And finally...

John Micklethwait, the editor of *The Economist* since 2006, is leaving the newspaper to become editor-in-chief of Bloomberg. His successor will be appointed in January.

Business

China's booming stockmarkets wobbled on December 9th, after the government announced a tightening of the rules on using corporate debt as collateral for loans. The **Shanghai Composite** plunged by 5.4% over a day, the biggest single fall in the index since 2009. Meanwhile, **Chinese** imports fell the most in November for eight months while exports grew at their slowest pace for six months. Inflation fell to 1.4%, a five-year low.

OPEC cut its estimate for demand for **oil** next year; its current output is 1m barrels a day more than it thinks will be needed in 2015. With American oil inventories rising more than had been expected, oil prices fell further; Brent crude fell below $65 a barrel. Responding to the bearish oil market BP became the latest energy company to say it would cut back on its development spending.

Reports suggested that **JPMorgan Chase** may be left with a shortfall of around $22 billion under the Federal Reserve's latest requirements for America's biggest banks to hold more capital to protect them in a crisis. The bank has until 2019 to increase its capital buffer.

Lending Club, the world's biggest peer-to-peer lender, priced its IPO at $15 a share, which valued the firm at $5.4 billion. So far it has issued $6 billion-worth of loans.

Taxi war dance

Uber had a bad week. The taxi-service app faced allegations in Delhi that one of its drivers had raped a passenger, leading the Indian capital to ban it from providing "any transport service". A court in the Netherlands stopped Uber from using drivers without a professional licence. And prosecutors in San Francisco and Los Angeles sought an injunction against Uber for, they claimed, failing to ensure that its drivers do not have criminal records.

A second official estimate showed that **Japan's** economy shrank by 1.9% at an annualised rate in the third quarter, worse than the contraction of 1.6% that a first estimate had recorded, and adding more pressure on Shinzo Abe's government as it heads into an election.

The British Treasury published draft proposals of a new tax on **diverted profits** to "counteract contrived arrangements". Aimed at multinationals, the tax will be set at 25% of the profit a company makes from its activities in Britain but which it has diverted overseas to escape tax. Although welcomed by some, the Confederation of British Industry wants the government to adhere to the OECD's process on international tax reform, and says going it alone is a "concern".

The OECD assessed the effects of **inequality** on economic growth, finding that it has a statistically significant negative impact. It reckoned, for example, that income inequality knocked ten percentage points off cumulative GDP growth in Mexico between 1990 and 2010, nine points off Britain's growth and up to seven points off America's. Redistributive polices do not hinder growth, it argued, as long as they are targeted effectively, specifically at education.

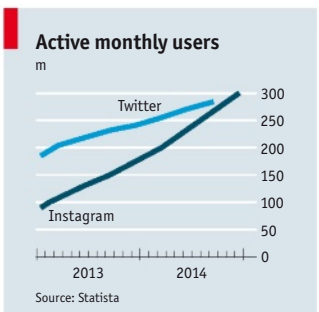
Merck, a drugs company based in New Jersey, agreed to buy **Cubist**, a biotech firm in Massachusetts, in a $9.5 billion acquisition. Cubist specialises in the growing market for creating antibiotics to combat the rise of "superbugs", such as MRSA, that are resistant to older drugs. A study led by Jim O'Neill, the economist who coined the term "BRICS", forecasts that 10m people a year will die from drug-resistant infections by 2050.

Slim fit

Mike Jeffries stepped down as the chief executive of **Abercrombie & Fitch**, following a slump in sales and profit warnings. Mr Jeffries had run the clothing retailer since 1992, turning it into a brand known for tightfitting jeans and shirts and muscle-bound lads who greet customers at its stores. His departure is immediate; the company will be run by an executive committee until a replacement is appointed.

Amazon told America's Federal Aviation Administration that it would move its research programme for **drone flights** to other countries if it does not get permission soon to conduct outdoor trials near Seattle. The online retailer hopes to use drones to deliver small packages to customers. This week the FAA granted waivers to four industrial companies to use drones for aerial inspections, but it has been criticised for being slow in coming up with general rules for commercial operations.

Tweet that



Instagram said it now has 300m monthly active users, which would give it a bigger user base than Twitter according to the latest figures (Twitter brings in more revenue). The photo-sharing app, which was bought by Facebook in 2012, hosts over 30 billion photographs; not all of them are of cute pets or of someone's feet on a beach.

Other economic data and news can be found on pages 90-91



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America's police on trial

The United States needs to overhaul its law-enforcement system



THE store camera tells a harrowing tale. John Crawford was standing in a Walmart in Ohio holding an air rifle—a toy he had picked off a shelf and was presumably planning to buy. He was pointing it at the floor while talking on his phone and browsing other goods. The children playing near him did not consider him a threat; nor did their mother, who was standing a few feet away. The police, responding to a 911 caller who said that a black man with a gun was threatening people, burst in and shot him dead. The children's mother died of a heart attack in the ensuing panic. In September a grand jury declined to indict the officers who shot Mr Crawford.

Most people have probably never heard this story, for such tragedies are disturbingly common: America's police shoot dead more than one person a day (nobody knows the exact number as not all deaths are reported). But two recent cases have sparked nationwide protests. First Michael Brown, a black teenager, was shot dead in murky circumstances in Ferguson, Missouri, just after he robbed a shop, and then Eric Garner, a harmless middle-aged black man guilty only of selling single cigarettes on the streets of New York, was choked to death by a policeman while five cops watched—and this time the event was filmed by a bystander.

So far much of the debate within America has focused on race. That is not unreasonable: the victims were all black, and most of the policemen involved were white. American blacks feel that the criminal-justice system works against them, rather than for them. Some 59% of white Americans have confidence in the police, but only 37% of blacks do. This is poisonous: if any racial group distrusts the enforcers of the law, it erodes the social contract. It also hurts America's moral standing in the world (not aided by revelations about the CIA's use of torture—see next leader). But racial division, rooted as it is in America's past, is not easily mitigated.

There is, however, another prism through which to examine these grim stories: the use of excessive violence by the state (see page 27). It, too, has complex origins, but quite a lot of them may be susceptible to reform. In many cases Americans simply do not realise how capricious and violent their law-enforcement system is compared with those of other rich countries. It could be changed in ways that would make America safer, and fairer to both blacks and whites.

Don't shoot

Bits of America's criminal-justice system are exemplary—New York's cops pioneered data-driven policing, for instance—but overall the country is an outlier for all the wrong reasons. It jails nearly 1% of its adult population, more than five times the rich-country average. A black American man has, by one estimate, a one in three chance of spending time behind bars. Sentences are harsh. Some American states impose life without parole for persistent but non-violent offenders; no other rich nation does. America's police are motivated to be rapacious: laws allow them to seize assets they merely suspect are linked to a crime and then spend the proceeds on equipment. And, while other nations have focused on community policing, some American police have become paramilitary, equipping themselves with grenade launchers and armoured cars. The number of raids by heavily armed SWAT teams has risen from 3,000 a year in 1980 to 50,000 today, by one estimate.

Above all, American law enforcement is unusually lethal: even the partial numbers show that the police shot and killed at least 458 people last year. By comparison, those in England and Wales shot and killed no one.

Fewer armoured cars, more body cameras

One reason why so many American police shoot first is that so many American civilians are armed. This year 46 policemen were shot dead; last year 52,000 were assaulted. When a policeman is called out to interrupt a robbery, he knows that one mistake could mean he never makes it to retirement. As this newspaper has often pointed out, guns largely explain why America's murder rate is several times that of other rich countries. And the vastly disparate rate at which policemen shoot young black men is not simply a matter of prejudice. Roughly 29% of Americans shot by the police are black, but so are about 42% of cop killers whose race is known.

If America did not have 300m guns in circulation, much of this would change. That, sadly, is not going to happen soon. But there are other ways to make the police less violent.

The first is transparency. Every police force should report how many people it kills to the federal government. And if communities want to buy gadgets, they should give their police body cameras. These devices deter bad behaviour on both sides and make investigations easier. Had the officer who shot Mr Brown worn one, everyone would know how it happened.

The second is accountability: it must be easier to sack bad cops. Many of America's 12,500 local police departments are tiny and internal disciplinary panels may consist of three fellow officers, one of whom is named by the officer under investigation. If an officer is accused of a crime, the decision as to whether to indict him may rest with a local prosecutor who works closely with the local police, attends barbecues with them and depends on the support of the police union if he or she wants to be re-elected. Or it may rest with a local "grand jury" of civilians, who hear only what the prosecutor wants them to hear. To improve accountability, complaints should be heard by independent arbiters, brought in from outside.

The third, and hardest, is reversing the militarisation of the police. Too many see their job as to wage war on criminals; too many poor neighbourhoods see the police as an occupying army. The police need more training and less weaponry: for a start, the Pentagon should stop handing out military kit to neighbourhood cops.

In many ways America remains a model for other countries. Its economic engine has roared back to life. Its values are ones which decent people should want to spread. Yet its criminal-justice system, the backbone of any society, is deeply flawed. Changing it will be hard; but change is overdue. ■

CIA torture

Shock therapy

A tawdry record, but facing up to the past is the best protection for the future



ALL countries fail to live up to the ethical standards they set themselves; only a few have the moral purpose to examine their lapses in the public square. After the attacks of September 11th 2001 the waterboarding, sleep-deprivation, insult-slapping and "rectal feeding" used by the Central Intelligence Agency (CIA) to interrogate prisoners were a betrayal of America's values. By criticising the CIA's programme in a report this week, the Senate intelligence committee has enraged the agency's defenders and comforted America's rivals. Yet, for all its flaws, this airing of the CIA's tactics is vital, because it is a necessary step towards redemption.

The report accuses the CIA of mismanaging the programme and of concealing its extent and its severity. The methods were dreamed up by two psychologists who were neither practised interrogators nor experts in al-Qaeda. And contrary to what the CIA told Congress, the White House and the public, interrogations produced hardly any useful intelligence.

The rebuttal has been furious (see page 31). Yes, there was mismanagement, argue the spooks, but after September 11th the threat of another attack meant timely intelligence was vital. The CIA programme had legal approval and the public demanded protection by whatever means—this was a time when torture warrants were debated. Indeed, the CIA was not gung-ho enough for hawks like Dick Cheney, then vice-president. Most important, say the report's critics, the programme produced intelligence of genuine value.

The rebuttal misses the point. Even if the CIA's techniques were deemed legal, they were designed to extract information using physical and mental anguish. To call that anything but torture is self-deception. Torture may well yield information, but it is a devil's bargain. An official policy of torture corrupts the torturers and the people charged with overseeing it. Congress and the White House wanted to shield themselves from the cruelty of acts being committed in their name but which, in the atmosphere of the time, they could not or would not condemn. If the CIA misled members of Congress, it was partly because the politicians were willing. Everybody becomes implicated—even Democrats now sloughing off responsibility.

Official torture also corrodes American policy abroad, even if it is wrapped up in a legal opinion from the Justice Department. Torturing Muslims feeds the very terrorism that it is designed to prevent. More broadly, a superpower that professes moral arguments to underpin its global vision for human rights and democracy cannot just abandon those standards in the futile search for absolute security. Autocracies welcome a policy of American torture as a put-into-jail-free card. For geopolitical rivals like Russia and China it is evidence to add to widespread electronic eavesdropping by the National Security Agency that America is a hypocrite just like the rest.

Hard questions

America has work to do. Although Barack Obama stopped "enhanced" interrogation when he became president, the camp at Guantánamo Bay has not been emptied of prisoners held without charge; they should be put on trial or set free. Mr Obama still has immense discretion over the CIA's tactics—and in a future crisis a president will be tempted to abuse it in the same way that the Bush White House did.

This week's Senate report makes a return to torture less likely. The CIA's black jails and the terrible things that went on in them were unworthy of the United States. However, amid the foreign gloating and the unedifying partisan rows at home, remember that unlike the rest, America tends to face up to its demons. That is an example other countries should follow. ■

Greece and the euro

Crisis revisited

The euro is still vulnerable, and Greece is not the only problem



IT WAS almost exactly five years ago that the euro crisis erupted, starting in Greece. Investors who had complacently let all euro-zone countries borrow at uniformly low levels abruptly woke up to the riskiness of an incompetent government borrowing money in a currency which it could not depreciate. There is thus a dismal symmetry in seeing the euro crisis flare up again in the place where it began.

The proximate cause of the latest outbreak of nerves was the decision by the Greek government, now headed by the generally competent Antonis Samaras, to advance the presidential election to later this month. The presidency is largely ceremonial, but if Mr Samaras cannot win enough votes in parliament for his candidate, Stavros Dimas, a general election will follow. Polls suggest the winner would be Syriza, a populist party led by Alexis Tsipras. Although Mr Tsipras professes that he does not want to leave the euro, he is making promises to voters on public spending and taxes that may make it hard for Greece to stay. Hence the markets' sudden pessimism.

As it happens, there is a good chance that Mr Dimas, a former EU commissioner, will win the presidential vote at the end of this month (see page 53). But the latest Aegean tragicomedy is a timely reminder both of how unreformed the euro ▸▸

zone still is and of the dangers lurking in its politics.

It is true that, ever since the pledge by the European Central Bank's president, Mario Draghi in July 2012 to "do whatever it takes" to save the euro, fears that the single currency might break up have dissipated. Much has been done to repair the euro's architecture, ranging from the establishment of a bail-out fund to the start of a banking union. And economic growth across the euro zone is slowly returning, however anaemically, even to Greece and other bailed-out countries.

But is that good enough? Even if the immediate threat of break-up has receded, the longer-term threat to the single currency has, if anything, increased. The euro zone seems to be trapped in a cycle of slow growth, high unemployment and dangerously low inflation. Mr Draghi would like to respond to this with full-blown quantitative easing, but he is running into fierce opposition from German and other like-minded ECB council members (see page 76). Fiscal expansion is similarly blocked by Germany's unyielding insistence on strict budgetary discipline. And forcing structural reforms through the two sickliest core euro countries, Italy and France, remains an agonisingly slow business.

Japan is reckoned to have had two "lost decades"; but in the past 20 years it grew by almost 0.9% a year. The euro zone, whose economy has not grown since the crisis, is showing no sign of dragging itself out of its slump. And Japan's political set-up is far more manageable than Europe's. It is a single political entity with a cohesive society; the euro zone consists of 18 separate countries, each with a different political landscape. It is hard to imagine it living through a decade even more dismal than Japan's without some political upheaval.

Greece is hardly alone in having angry voters. Portugal and Spain both have elections next year, in which parties that are fiercely against excessive austerity are likely to do well. In Italy three of the four biggest parties, Forza Italia, the Northern League and Beppe Grillo's Five Star movement, are turning against euro membership. France's anti-European National Front continues to climb in the opinion polls. Even Germany has a rising populist party that is against the euro.

It's the politics, stupid

Indeed, the political risks to the euro may be greater now than they were at the height of the euro crisis in 2011-12. What was striking then was that large majorities of ordinary voters preferred to stick with the single currency despite the austerity imposed by the conditions of their bail-outs, because they feared that any alternative would be even more painful. Now that the economies of Europe seem a little more stable, the risks of walking away from the single currency may also seem smaller.

Alexis de Tocqueville once observed that the most dangerous moment for a bad government was when it began to reform. Unless it can find some way to boost growth soon, the euro zone could yet bear out his dictum. ■

World Health Organisation

Heal thyself

The ailing international health authority needs a stronger organisation



IN MARCH investigators from the World Health Organisation (WHO) arrived in Guinea to examine several cases of haemorrhagic fever. Smocks were donned, blood was taken and samples were sent away. The results, as feared, showed an outbreak of Ebola. The doctors at Médecins Sans Frontières sounded the alarm, but the WHO downplayed the situation. It would take nearly five months, and hundreds more deaths, before the organisation supposed to take the global lead on health declared Ebola an international emergency.

The WHO has faced wide criticism for its role in allowing Ebola, which has now killed over 6,300 people (see page 49), to rage out of control in west Africa. Some of it is unfair. The WHO's experts were not alone in relaxing their guard in May, when the outbreak appeared to recede. And although the world seemed to expect it to send an army of health workers to the African bush, the WHO has only experts and supplies at its disposal, and it sent both quickly. But the world's "directing and co-ordinating" health authority did little of either during the crisis. As Ebola spread, it dawdled, leaving overstretched aid groups to pick up the slack.

This is symptomatic. Two decades ago, it did a poor job of coping with AIDS, so the UN created its own agency to fight the disease. Too often the WHO's policies are shaped by politics, rather than the best medical evidence. In recent years the Gates Foundation bankrolled an institute to gather health statistics and evaluate health policies, which is now regarded as more authoritative. Because the WHO is no longer seen as doing cutting-edge work, it does not attract or keep the best staff. And its record on pushing through international deals on health policy is patchy. An agreement was reached to work at reducing tobacco use, but member states tend to see negotiations (on such subjects as counterfeit drugs and anti-obesity guidelines) as a chance to lobby for their economic interests.

Cough up the cash

Behind all the muddle, the WHO has three big problems (see page 61). First it does not know what it is for. Its founding mission—to ensure "the highest possible level of health" for everyone—is vague, and unattainable given its resources. It spends most of its cash on communicable diseases, promoting universal health coverage and, rather startlingly, trying to improve its own management. But its budget also covers items such as "promoting health through the life-course", which "is concerned with health as an outcome of all policies". This after it claims to have taken a hard look at its capacity.

The WHO's second problem, one it shares with many UN outfits, is the daft way it is organised. Its regional offices, which spend a fifth of its budget, are accountable not to its global boss, Margaret Chan, but to local governments. That means some are stuffed with incompetent political placemen, and it leaves its director-general in Geneva with little power to direct operations. The African office is particularly weak. Dr Chan

was eventually driven to force out the main officials in the countries hardest hit by Ebola.

Parlous finances complete the dismal picture. Because member countries' dues come nowhere close to covering the organisation's running costs, it accepts voluntary contributions from many other sources, including rich countries, charities and even drug firms. That hampers long-term planning: a fall-off in donations after the financial crisis led to swingeing cuts. And few donors trust it to spend their money wisely—not least because the weak regional offices undermine confidence in the organisation as a whole—so most of what it gets is earmarked for specific causes. Fighting unpredictable outbreaks of obscure diseases has never featured highly among these.

The WHO's failure to lead the response to the Ebola crisis should be used as a spur to rethink what the WHO is for, and how it is financed and run. Instead of doing the job of governments, it should focus on the things they cannot manage alone, such as helping poor countries set up health systems, disseminating the best medical research and policies, and combating global epidemics. Politicians must be stopped from using regional offices as a parking-place for friends and relations of their allies. Dr Chan should be able to direct her own organisation: that means being able to hire and fire. And if the world wants an outfit capable of dealing with emergencies such as Ebola, it needs to pay for it. That means increasing dues—and not leaving it to scrabble for handouts. ■

Climate change and geoengineering

Fears of a bright planet

Experiments designed to learn more about ways of geoengineering the climate should be allowed to proceed



SHINY things absorb less heat when left in the sun. This means that if the Earth could be made a little shinier it would be less susceptible to global warming. Ways to brighten it, such as adding nanoscale specks of salt to low clouds, making them whiter, or putting a thin haze of particles into the stratosphere, are the province of "geoengineering". The small band of scientists which has been studying this subject over the past decade or so has mostly been using computer models. Some of them are now proposing outdoor experiments—using seawater-fed sprayers to churn out particles of the exact size needed to brighten clouds, or spewing sulphur particles from underneath a large balloon 20km up in the sky (see page 79).

The aims are modest. The scientists hope to understand some of the processes on which these technologies depend, as a way of both gauging their feasibility (can you reliably make tiny puffs of sea salt brighten clouds?) and assessing their risks (how much damage to the ozone layer might a stratospheric haze do, and how might such damage be minimised?). The experiments would be far too small to have any climatic effects. The amount of sulphur put into the stratosphere by the experimental balloon would be 2% of what a passenger jet crossing the Atlantic emits in an hour.

Nonetheless, these experiments—and this whole line of research—are hugely controversial. Many scientists are sceptical about geoengineering and most greens are outraged. Opponents object to them for a range of reasons. Some are against the very idea of geoengineering and any experiments in the area, even those which pose no immediate risk to the environment. They abhor the hubris involved in trying to affect the mechanics of the climate and despair at the potential diversion of attention from controlling carbon emissions as the route to countering climate change. They find the idea of some-possibly many—countries having the power to change the climate for the whole planet a geopolitical nightmare. Even modest experiments in geoengineering, according to this logic, are the beginnings of a slippery slope, one that will engender a false sense of security and domesticate an idea that should have always remained outrageous.

Yet caving in to this opposition would raise, rather than reduce, the dangers to the planet. Geoengineering is not an alternative to mitigating climate change by cutting carbon emissions, but it may be needed as a complement to it. Although pressure for cuts in carbon emissions through negotiations such as those currently taking place in Lima is yielding results—witness the recent agreement by China and America on new reduction targets—it has so far been insufficient to the task, and emissions look set to rise for decades yet.

Even if emissions do eventually start to fall, the cuts will take decades to have any effect so temperatures are likely to go on going up for some time. Although they have not soared in the past couple of decades as they did in the 1980s and 1990s, there is a fair chance that this year will tie with the hottest on record. The planet is not getting cooler and the pressures on the climate are unlikely to go away. It is therefore not too hard to imagine a world, decades hence, in which emissions are falling but temperatures are rising steeply and the ability to adapt to them has been stretched too far. An additional way to stabilise temperatures might then seem in order. Geoengineering offers that possibility.

Knowledge can be dangerous; ignorance can be worse

Research on a question of such gravity will have implications beyond its scientific results. But that is a reason to hold the scientists to high standards, not to duck the experiment entirely. If the research consists of safe, well-conceived experiments designed to improve scientific understanding of the processes involved; if it is conducted by people who openly discuss with the public the implications of their research; if it is funded by bodies that take the need for transparency and debate about the risks inherent in such research seriously: then it deserves to be approved.

There are all sorts of reasons why geoengineering may prove impossible, either politically or scientifically. It may be too dangerous to countenance, and the circumstances which might make it an appealing complement to cutting emissions may never arise. But to treat research into the subject as taboo on the basis that ignorance is a viable defence against folly would be a dangerous mistake. ■

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Searching for answers

SIR – Your briefing on internet monopolies reckoned that "the internet giants rarely compete strenuously on each other's home turf" ("Everybody wants to rule the world", November 29th). On the contrary, there is intense competition among these companies with respect to devices, digital content, advertising, cloud services, operating systems, productivity software, app stores, search services, digital assistants, maps and browsers, to give just a few examples.

You also referred to Google's "switching costs". It is easy for people to switch to another search engine, which you recognised. For services involving stored data such as e-mail or photos, Google Takeout enables users to download their content easily. Advertisers have the same flexibility: they can export their entire Google campaigns to Bing Ads simply by clicking a button labelled "Import from Google AdWords".

HAL VARIAN
Chief economist
Google
Mountain View, California

SIR – Google's dominance benefits consumers, you say, but your examples of searches that yield fact-based information—"flight details, dictionary definitions, or a map"—were misleading. Yes, quickly providing immutable facts makes sense for certain queries, but when user opinions comprise a critical part of the search results Google's practices produce more harm than benefit. As an example, a search for "paediatrician Berlin" returns a map powered by Google+ Local. Despite having less content and a lower algorithmic ranking (this is according to Google's own "secret sauce"), Google+ always wins coveted positions in the results. Yet Jameda.de, a German website that specialises in appraisals of local doctors, has thousands more reviews and a higher PageRank.

Local searches make up one-third of desktop searches and over half on smartphones. The prominent display of Google's own product, Google+, exploits consumers' belief that Google will always deliver the best, impartial information on the web, and violates the search giant's own ethos of "focus on the user". Hardwiring Google+ results in the most common category of search not only stifles innovation and prevents competition, it harms consumers. FocusOnTheUser.EU, a coalition of consumer organisations and American and European firms, offers evidence of this harm.

LUTHER LOWE
Director of public policy
Yelp
San Francisco

SIR – The fact that "competition is only a click away" is the case in many businesses. People can switch seamlessly from Coke to Pepsi (competition is one wrist-twist away), from Nike to Reebok (competition is one step away) or from Delta to American (competition is, really, one click away). What matters is that, when it comes to Google, consumers actually do not make that click.

ADRIEN GIRAUD
Brussels

SIR – Thinking that Bing is "broadly Google-equivalent" is like buying a supermarket-brand risotto. It may look similar enough to dupe you into at times thinking yes, maybe, just maybe, this time they have finally got it together, but it always ultimately just tastes of regret and failure.

MICHAEL CHIRICO
Philadelphia

Rebranding citizens

SIR – Lexington attributed the rise of public doubts about government in Western democracies to globalisation and the economic wrench it has produced (November 15th). Undoubtedly globalisation has created new strains. However, the erosion of trust dates back earlier than implied. An article in *The Economist* in 1999 ("Is there a crisis?", July 17th 1999) described the erosion of trust beginning in the 1960s in America and Sweden. Western Europe, Canada, Australia, New Zealand followed in the 1970s or 1980s. This downward trend continues to the present.



Research suggests that the changes in the values and norms of the public, a shift in the style of interest-group politics and the norms of media reporting have contributed to a secular shift towards a more assertive and sceptical public. The deferential citizen is becoming an endangered species, which is a benefit to democracy.

RUSSELL DALTON
Centre for the Study of Democracy
University of California, Irvine

Pensioners up in arms

SIR – The state pension in Britain may well be a future problem, but by calling for the government to save money by ending it for the top fifth of earners you raised an ethical issue, rather than an economic one ("Check your sums, guys", November 29th). Pensions are not a means-tested income. They form part of the mix of people's retirement expectations based on a combination of state and private pensions. Although people may expect the projected income to change, they do not expect the rules to change. There would be an outcry if a private pension fund announced a retrospective change in pension rules to cut payments to a particular group.

I am fortunate enough to be in the top fifth of income earners. This income is not a windfall benefit but something I have paid for over a lifetime through my national-insurance contributions.

DAVID SCOTT
Loughborough, Leicestershire

SIR – The figure you quoted of the average private-pension income per household of £65,000 ($102,000) for the top fifth of earners is clearly a mean, and therefore heavily distorted by the income of the top 1%. That top fifth would surely include people whose income is half that mean. And although it is true that the cash to pay out state pensions is borne by the younger generation, today's pensioners have earned these pension rights through their social-insurance contributions, stretching back perhaps over 50 years.

There is no moral case for reneging on that contract, and such a move would not survive a legal challenge.

CHRIS WRIGHT
Henley on Thames, Oxfordshire

SIR – I do not understand why you have a problem with a system in which the younger generation in effect is paying for today's state pension. Other areas of the welfare state operate on the same principle, notably the NHS, where fitter, younger workers shell out in taxes today for the care that goes disproportionately to older people. When the fit become old they will reap the benefit from paying the taxes that have created a world-class health service. Generational tax transfers work in reverse for education, where families have their children's schooling subsidised by older taxpaying households without kids.

We can slice the tax pie whichever way we want to claim the system isn't fair.

JENNIFER ROBINSON
Glasgow

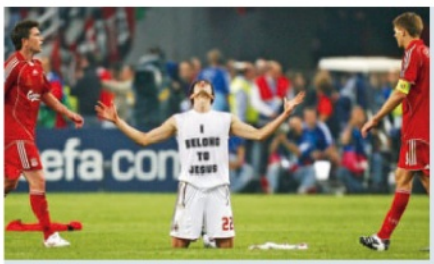
SIR – What next to save the state from the burden of its ageing population? How about euthanasia? It is a good job that there are a lot of us and we are all ready to vote.

TONY FISHER
Maidstone, Kent ■

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Religion and football

People of widely different beliefs are nowadays likely to find themselves on the same team and in the same changing room. Football is working out how to manage this, but banning religion does not seem to be a realistic answer



Italy's Five Star movement

Although the shaggy-haired comic can still rouse crowds with his attacks on the ineptitude of Italy's traditional parties, Beppe Grillo's movement is tired of his autocratic leadership. Nevertheless, his appeal can be expected to endure



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Hedley May

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The dozy watchdogs

NEW YORK

Some 13 years after Enron, auditors still can't stop managers cooking the books. Time for some serious reforms

NO ENDORSEMENT carries more weight than an investment by Warren Buffett. He became the world's second-richest man by buying safe, reliable businesses and holding them for ever. So when his company increased its stake in Tesco to 5% in 2012, it sent a strong message that the giant British grocer would rebound from its disastrous attempt to compete in America.

But it turned out that even the Oracle of Omaha can fall victim to dodgy accounting. On September 22nd Tesco announced that its profit guidance for the first half of 2014 was £250m ($408m) too high, because it had overstated the rebate income it would receive from suppliers. Britain's Serious Fraud Office has begun a criminal investigation into the errors. The company's fortunes have worsened since then: on December 9th it cut its profit forecast by 30%, partly because its new boss said it would stop "artificially" improving results by reducing service near the end of a quarter. Mr Buffett, whose firm has lost $750m on Tesco, now calls the trade a "huge mistake".

No sooner did the news break than the spotlight fell on PricewaterhouseCoopers (PWC), one of the "Big Four" global accounting networks (the others are Deloitte, Ernst & Young (EY) and KPMG). Tesco had paid the firm £10.4m to sign off on its 2013 financial statements. PWC mentioned the suspect rebates as an area of heightened scrutiny, but still gave a clean audit.

PWC's failure to detect the problem is hardly an isolated case. If accounting scandals no longer dominate headlines as they did when Enron and WorldCom imploded in 2001-02, that is not because they have vanished but because they have become routine. On December 4th a Spanish court reported that Bankia had mis-stated its finances when it went public in 2011, ten months before it was nationalised. In 2012 Hewlett-Packard wrote off 80% of its $10.3 billion purchase of Autonomy, a software company, after accusing the firm of counting forecast subscriptions as current sales (Autonomy pleads innocence). The previous year Olympus, a Japanese optical-device maker, revealed it had hidden billions of dollars in losses. In each case, Big Four auditors had given their blessing.

And although accountants have largely avoided blame for the financial crisis of 2008, at the very least they failed to raise the alarm. America's Federal Deposit Insurance Corporation is suing PWC for $1 billion for not detecting fraud at Colonial Bank, which failed in 2009. (PWC denies wrongdoing and says the bank deceived the firm.) This June two KPMG auditors received suspensions for failing to scrutinise loan-loss reserves at TierOne, another failed bank. Just eight months before Lehman Brothers' demise, EY's audit kept mum about the repurchase transactions that disguised the bank's leverage.

The situation is graver still in emerging markets. In 2009 Satyam, an Indian technology company, admitted it had faked over $1 billion of cash on its books. North American exchanges have de-listed more than 100 Chinese firms in recent years because of accounting problems. In 2010 Jon Carnes, a short seller, sent a cameraman to a biodiesel factory that China Integrated Energy (a KPMG client) said was producing at full blast, and found it had been dormant for months. The next year Muddy Waters, a research firm, discovered that much of the timber Sino-Forest (audited by EY) claimed to own did not exist. Both companies lost over 95% of their value.

Of course, no police force can hope to prevent every crime. But such frequent scandals call into question whether this is the best the Big Four can do—and if so, whether their efforts are worth the $50 billion a year they collect in audit fees. In popular imagination, auditors are there to sniff out fraud. But because the profession was historically allowed to self-regulate despite enjoying a government-guaranteed franchise, it has set the bar so low—formally, auditors merely opine on whether financial statements meet accounting standards—that it is all but impossible for them to fail at their jobs, as they define them. In recent years this yawning "expectations gap" has led to a pattern in which investors disregard auditors and make little effort to learn about their work, value securities as if audited financial statements were the gospel truth, and then erupt in righteous ▸▸

fury when the inevitable downward revisions cost them their shirts.

The stakes are high. If investors stop trusting financial statements, they will charge a higher cost of capital to honest and deceitful companies alike, reducing funds available for investment and slowing growth. Only substantial reform of the auditors' perverse business model can end this cycle of disappointment.

Born with the railways

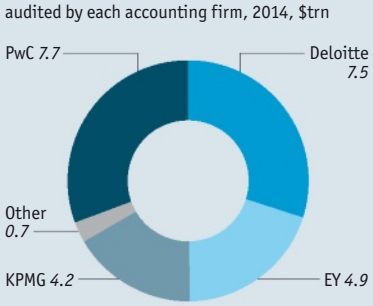
Auditors perform a central role in modern capitalism. Ever since the invention of the joint-stock corporation, shareholders have been plagued by the mismatch between the interests of a firm's owners and those of its managers. Because a company's executives know far more about its operations than its investors do, they have every incentive to line their pockets and hide its true condition. In turn, the markets will withhold capital from firms whose managers they distrust. Auditors arose to resolve this "information asymmetry".

Early joint-stock firms like the Dutch East India Company designated a handful of investors to make sure the books added up, though these primitive auditors generally lacked the time or expertise to provide an effective check on management. By the mid-1800s, British lenders to capital-hungry American railway companies deployed chartered accountants—the first modern auditors—to investigate every aspect of the railroads' businesses. These Anglophone roots have proved durable: 150 years later, the Big Four global networks are still essentially controlled by their branches in the United States and Britain. Their current bosses are all American.

As the number of investors in companies grew, so did the inefficiency of each of them sending separate sleuths to keep management in line. Moreover, companies hoping to cut financing costs realised they could extract better terms by getting an auditor to vouch for them. Those accountants in turn had an incentive to evaluate their clients fairly, in order to command the trust of the markets. By the 1920s, 80% of companies on the New York Stock Exchange voluntarily hired an auditor.

The power of four

Market capitalisation of US-listed companies audited by each accounting firm, 2014, $trn



Source: Audit Analytics

Unfortunately, Jazz Age investors did not distinguish between audited companies and their less scrupulous peers. Among the miscreants was Swedish Match, a European firm whose skill at securing state-sanctioned monopolies was surpassed only by the aggression of its accounting. After its boss, Ivar Kreuger, died in 1932 the company collapsed, costing American investors the equivalent of $4.33 billion in current dollars. Soon after this the Democratic Congress, cleaning up the markets after the Great Depression, instituted a rule that all publicly held firms had to issue audited financial statements. Britain had already brought in a similar policy.

Just what that audit should entail, however, remained an open question. Some legislators proposed that the newly formed Securities and Exchange Commission should conduct audits itself. However, Congress decided to let accountants determine for themselves what their reports would contain. That ill-fated choice paved the way for a watering-down of the audit report that plagues markets to this day.

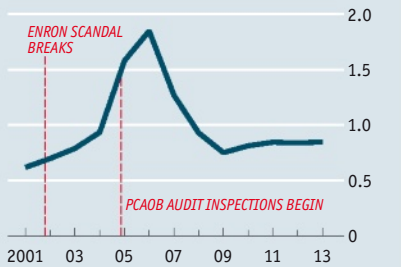
Even in the age of voluntary audits, accountants were rarely held accountable for their clients' sins. As a British judge declared in 1896, "An auditor is not bound to be a detective…he is a watchdog, not a bloodhound." The advent of mandatory audits exacerbated this hazard, because auditors no longer needed to provide value to investors in order to induce companies to buy their services. Without any external rules on what the profession had to verify, it quickly began reducing its own responsibility. Having once offered a "guarantee" that statements were correct, auditors soon moved on to mere "opinions".

The modern audit does not even provide an opinion on accuracy. Instead, the boilerplate one-page pass/fail report in America merely provides "reasonable assurance" that a company's statements "present fairly, in all material respects, the financial position of [the company] in conformity with generally accepted accounting principles (GAAP)". GAAP is a 7,700-page behemoth, packed with arbitrary cut-offs and wide estimate ranges, and riddled with loopholes so big that some accountants argue even Enron complied with them. (International Financial Reporting Standards—IFRS), which are used outside the United States, rely more on broad principles). "An auditor's opinion really says, 'This financial information is more or less OK, in general, so far as we can tell, most of the time'," says Jim Peterson, a former lawyer for Arthur Andersen, the now-defunct accounting firm that audited Enron. "Nobody has paid any attention or put real value on it for about 30 years."

Although auditors cannot hope to verify more than a tiny fraction of the millions of transactions their clients conduct, in order to comply with the standards they physically count inventories, match invoices with shipments and bank statements, and consult experts on the plausibility of management's estimates. Most firms' records are at least tweaked during the process. And even though private businesses do not have to undergo audits, most mid-size firms buy one anyway, because banks rarely lend to unaudited borrowers. The recent spate of frauds in China, where auditing practices are far laxer, shows that markets are right to assign a premium to companies that receive a Western accountant's approval.

Painful adjustments

Company account restatements of US-registered companies, '000



Source: Audit Analytics

Those conflicts of interest

Even so, the misaligned incentives built into auditing all but guarantee that accountants will fall short of investors' needs. The beneficiaries of the service—current and prospective shareholders—pay for it indirectly or not at all, while the purchasers buy it only because they are required to. As a result, companies tend to select auditors who will provide a clean opinion as cheaply and quickly as possible. Similarly, accountants who discover irregularities may be better off asking management to make minor adjustments, rather than blowing the whistle on a mis-statement that could embroil their firm in costly litigation.

The audit industry cites four main factors that counteract this conflict of interest. One is the separation of the audit committee from management. Ever since the Sarbanes-Oxley corporate-governance reform of 2002, American auditors have been chosen not by CEOs or CFOs but by a subcommittee of the board of directors. In theory, this should ensure they are selected and compensated with shareholders' interests in mind. In practice, audit committees are easily captured by management. One academic study found that companies with a senior executive previously employed by a member of the Big Four are far more likely to be audited by that firm than its competitors. The head of Tesco's audit committee once worked at PwC.

Another potential defence against conflict is reputation: an auditor known for

shoddy work will lose business, because investors will not believe its reports. That may have been true long ago, when companies could choose among many accountants. But today only the Big Four have the scale to audit giant multinationals; together, they audit firms that make up 98% of the value of American stockmarkets. And since all of them have approved statements later revealed to be incorrect, none enjoys a reputation much above the others. Companies do not drop Big Four auditors just because the firm failed to catch an error at a different client.

A potentially stronger deterrent is legal risk. Ever since a 1969 Supreme Court case found auditors liable for failing to detect fraud, accountants have feared litigation from shareholders. Those concerns were vindicated when Arthur Andersen, a peer of the Big Four, was brought down by lawsuits related to the Enron scandal. But it took the biggest accounting failure in history to overcome the legal protections auditors enjoy. Short of an Enron-scale disaster, the Big Four have generally beaten back suits or settled them for affordable sums. In America, plaintiffs have to demonstrate intentional recklessness by the accountants in order to reach trial. And in 2005, the Supreme Court ruled that shareholders must prove a direct causal link between a defendant's activity and a declining stock price in order to claim damages. Despite the auditors' abysmal performance before the financial crisis, legal claims against them have been modest: this April an arbitration council ruled that EY was not at fault in Lehman Brothers' bankruptcy.

That leaves only one truly effective force: regulation. In 1933, during a hearing on a law that helped establish mandatory audits, an industry spokesman told Congress that auditors were fully independent from the accounting staffs of their clients. "You audit the controllers?" a sceptical senator inquired. "Who audits you?" "Our conscience," came the meek reply.

If there was any doubt that this was an insufficient safeguard, the Enron scandal eliminated it. In response, the Sarbanes-Oxley act limited the consulting work American accounting firms could do for audit clients, and set up the Public Company Accounting Oversight Board (PCAOB), a non-profit intended to play Big Brother to the Big Four. James Doty, its chairman, says that "We see [auditors] as professional people subject to pressures to compromise their independence." In 2004 Britain established a similar watchdog, which is part of the Financial Reporting Council.

These bodies have audited the auditors with gusto. They check the most delicate sections of risky audits; prepare reports on each accounting firm; and levy multi-million-dollar fines when displeased. Last month the PCAOB announced that of the 219 audits of financial statements for 2013 it had reviewed, 85 required more work and should not have been approved. Since the board's creation, restatements have declined significantly. The PCAOB "is what's on the mind of the everyday auditor today", says Joe Ucuzoglu of Deloitte. "Their work is going to have to stand up to inspection scrutiny. High-quality work is rewarded, but lapses can have severe consequences for their compensation."

Improving the bite

The PCAOB is rightly proud of the improvements in audit quality on its watch. But the regulators themselves admit that though government inspections may help reduce gross negligence, they cannot convert auditors into the trusty allies against rogue management that shareholders need. For that, only structural reform will do.

The easiest improvement would be an expansion of the audit report. Britain has already replaced the single-page pass/fail statement with a more detailed summary of auditors' activities and areas of focus. Bob Moritz, the chairman of PWC's American arm, says that reports would be more useful if accountants audited a wider range of "value drivers", such as drug pipelines for pharmaceutical companies or oil reserves for energy companies.

Another help would be greater competition. Because the Big Four specialise in different industries in each country, many companies have only two or three candidates to audit them. High concentration has also hamstrung the courts: in 2005 America's Justice Department agreed not to prosecute KPMG for marketing illegal tax shelters, largely because the government feared that a conviction would destroy the firm and further reduce the numbers in the oligopoly. But antitrust action against the Big Four would make matters worse: breaking one up would leave even fewer firms with the necessary scale. Ironically, the way to increase competition would be for a group of weaker networks to consolidate into a new global player. However, even KPMG, the smallest of the Big Four, is larger than the next four firms combined.



Proposals to modify how auditors are chosen or paid invariably involve trade-offs. The simplest would be to shield the audit committee even more from management influence, by having it nominated by a separate proxy vote rather than the board of directors. Whether arm's-length shareholders would know enough to do so is debatable. But the change would reduce the risk of the CFO suggesting an auditor to a committee member on the golf course.

Some critics suggest taking the selection of auditors away from companies entirely. One model would hand that responsibility to stock exchanges. However, exchanges might be more interested in using lax audit rules to induce companies to list than in courting investors by marketing themselves as fraud-free platforms. To avoid that risk, many pundits suggest that government should appoint auditors instead—or even that the profession should be nationalised. "Do people panic when the IRS descends on them, or when your friendly neighbourhood auditor that you pay does?" asks Prem Sikka of the University of Essex. "Companies should be directly audited by an arm of the regulator." Small-government types hate either prospect.

The most elegant solution comes from Joshua Ronen, a professor at New York University. He suggests "financial statements insurance", in which firms would buy coverage to protect shareholders against losses from accounting errors, and insurers would then hire auditors to assess the odds of a mis-statement. The proposal neatly aligns the incentives of auditors and shareholders—an insurer would probably offer generous bonuses for discovering fraud. Unfortunately, no insurer has offered such coverage voluntarily. New regulation may be needed to encourage it.

Finally, the answer for free-market purists is to scrap the legal requirement for audits. Today accountants enjoy a captive market, and maximise profits by doing the job as cheaply as possible. If clients were no longer forced to buy audits, those rents would disappear. In order to stay in business, the Big Four would then have to devise a new type of audit that investors actually found useful. This approach would probably yield detailed reports designed with shareholders' interests in mind. But it would also allow hucksters to peddle unaudited penny stocks to gullible investors. Whether government should protect people from bad decisions is a question with implications far beyond accounting. ■



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Policing

Don't shoot

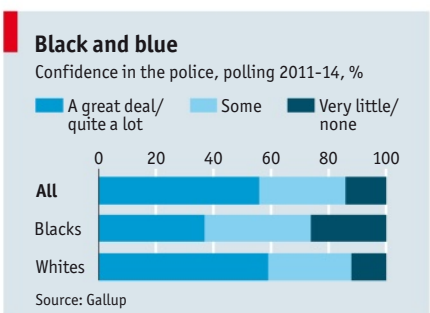
NEW YORK

America's police kill too many people. But some forces are showing how smarter, less aggressive policing gets results

IN THE basement of St Gregory's church in Crown Heights, a Brooklyn neighbourhood where kosher pizzerias compete with jerk-chicken shacks for business, the officers of the 77th precinct are giving away colouring books for children. "Police officers are your friends," the book's title proclaims. Around the city, protests at the decision not to prosecute the officer who choked Eric Garner to death suggested that plenty of New Yorkers did not agree.

A few blocks away, not long after the precinct's black commanding officer listened to complaints of police racism from 100 mostly black residents of the neighbourhood, a mentally disturbed man with a knife stabbed an Israeli student at an Orthodox religious school. Police shot the knifeman dead, after he threatened to stab more people, to the relief of some of the assembled faithful. The police were their friends after all.

If it is to work well, the relationship between police and policed requires mutual trust. "Public safety without public approval is not public safety," says Bill Bratton, New York's police commissioner. After Mr Garner's death, which was captured on camera, complete with his last words ("I can't breathe", gasped ten times or so), and the shooting by a policeman of Michael Brown in Ferguson, Missouri, in August, public approval is in short supply.



Both cases involved white officers killing unarmed black men, and neither of the officers has been indicted for wrongdoing. The two cases are not the same, however. Mr Garner was selling loose, untaxed cigarettes in the street and posing no threat to anyone. Mr Brown's case is murkier, since there is no video footage. A friend of Mr Brown's, with him when he robbed a convenience store shortly beforehand, says that the policeman shot him in cold blood. The policeman says he acted in self-defence, after the 292lb Mr Brown attacked him and tried to grab his gun. The forensic evidence tends to support the officer.

Public opinion divides along racial lines. Nearly all African-Americans think the failure to indict the officers involved was wrong in both cases. Whites make a distinction: 64% think the grand jury made the right decision in Mr Brown's case but only 28% think that about Mr Garner's, according to a Pew poll.

The FBI counts over 400 "justifiable homicides" by American police officers every year. This number includes only those shot while committing a crime. Reporting such shootings is voluntary, so the true number is surely higher. Even undercounting, America easily outguns other rich countries: in the year to March 2013 police in England and Wales fired weapons three times and killed no one.

Such comparisons should be read in context. America's police operate in a country with 300m guns and a murder rate six times Germany's. In recent years the New York Police Department (NYPD) was called to an annual average of almost 200,000 incidents involving weapons, shot 28 people and saw six of its officers shot (mostly non-fatally). Despite the headlines, it is one of America's more restrained forces.

The more trigger-happy police departments tend to be found in smaller cities where fewer journalists live. Peter Moskos of John Jay College has come up with a measure to identify them, which checks the number of police shootings against the number of murders in a city. The places that stand out as having a lot of police shootings relative to the number of murders are Riverside, San Diego and Sacramento in California; and Tucson and Phoenix in Arizona.

In general, smaller police forces are less likely to have proper oversight. (This matters: half of America's 12,500 local police forces have ten or fewer officers.) Larger jurisdictions can employ people whose job is to prosecute policemen. In Brooklyn ▸▸

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(population 2.5m), the current district attorney made his name prosecuting an officer for sodomising a handcuffed Haitian immigrant with a broomstick in the lavatory of a police station. In a small town policemen are investigated by people they work with all the time. "The prosecutor is the guy who went to your kid's confirmation," says Mr Moskos. In the whole country, fewer than six officers were charged with murder or manslaughter each year, on average, between 2005 and 2011, according to Philip Stinson of Bowling Green State University.

If the problem were just one of scale then the answer would be simple, at least in theory: merge small departments to form bigger ones. But even in some fairly large cities some officers are too eager to use force. When a police force has been the subject of frequent complaints, the Department of Justice (DOJ) is often called in to investigate and make recommendations.

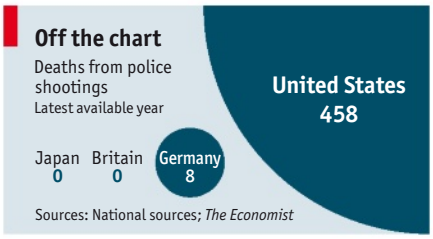
Under Barack Obama's administration, the department currently has 27 active cases, looking at city forces such as Seattle's or Cleveland's and also at some individual sheriffs' departments. Though the DOJ finds that, even in the worst departments, most shootings are justified, they also show that the shooting of unarmed people who pose no threat is disturbingly common.

The body count in Albuquerque

Albuquerque, New Mexico, is a strong contender for the country's most violent force. In 2009, according to the DOJ, one of its officers pulled a man over for driving with no rear lights. The driver, Andrew Lopez, ran away. One of the officers chasing him thought Mr Lopez had "the biggest handgun that he had ever seen", says a DOJ report, though he was in fact unarmed. The cop shot him three times and, as he lay wounded, shot him again in the chest, killing him. In 2011, when the case came to a civil trial, a police training officer called the officer's actions "exemplary" and said he "would use this incident to train officers on the proper use of deadly force".

A year later the city's officers were called to an incident in which Kenneth Ellis, a 25-year-old army veteran suffering from post-traumatic stress disorder, had a gun to his head and was threatening to kill himself. An officer prevented Ellis's suicide by shooting him in the neck, fatally. Another potential suicide poured petrol on himself: Albuquerque police tasered him, not realising that this would set him alight.

Violence against people who are in the midst of a mental crisis is a common theme of the DOJ's reports. A 2011 investigation of Seattle's police department turned up a case of a man whom police had found in the street, "yelling at traffic lights while holding a stuffed animal". An officer ordered him to move to the side of the road and, when the man disobeyed, pepper-sprayed him. When the man made a fist, the officer hit him with a baton. When he ran, four officers chased him and punched him several times, kneed him, elbowed him and hit him again with their batons. He was then arrested on charges of pedestrian interference and obstruction.



Using violence to enforce footling laws is also a common theme. Mr Garner died while being arrested for selling single cigarettes on which he had not paid the full New York duty, which is so high that 76% of the cigarettes smoked in the city are bootlegged. Letitia James, New York's public advocate, partly blames the "broken windows" theory of policing for Mr Garner's death. This theory holds that police should use statistical models to identify areas where crime is likely to happen and then flood them with officers who crack down even on minor offences in the hope of preventing more serious ones. It is widely considered a colossal success.

A more obvious culprit is the way policework is measured. Police managers fret about lazy officers. To keep them away from the doughnuts, most forces judge officers by how many arrests they make. Preventing a rape does not count; busting someone for jaywalking does.

There is a paradox in all this. American cities have become much safer in the past two decades. Too many urban forces do not seem to have noticed. In Cleveland, the DOJ found a sign in a police parking lot that read "Forward Operating Base", as if it were an outpost in Afghanistan.

This is an unhelpful mindset. In 2012 a car containing Timothy Russell and Malissa Williams drove past the city's police headquarters. Officers thought they heard a shot from the car and gave chase, though in fact neither the driver nor the passenger was armed. At least 60 police vehicles and over 100 officers joined in. The chase ended in a school car park, where 13 cops fired 137 shots at the car, killing its occupants. "The officers…reported believing that they were being fired at by the suspects," said the DOJ. "It now appears that those shots were being fired by fellow officers."

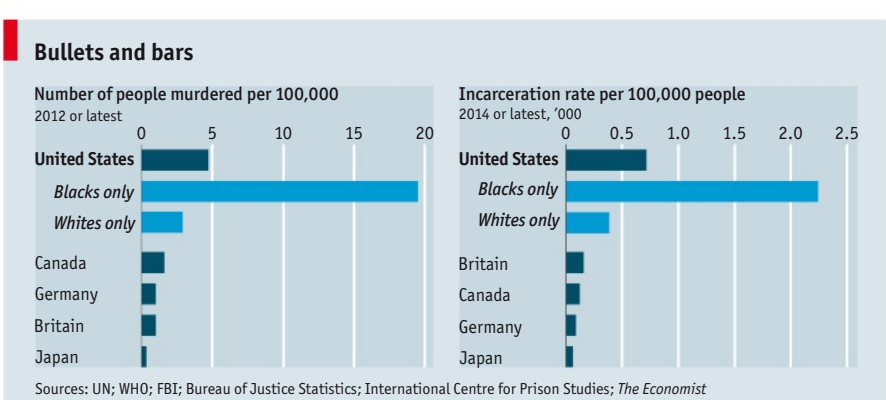
The federal government stokes the culture of the warrior cop by offloading surplus military kit to local police. The Los Angeles School District Police Department has acquired three grenade-launchers and a mine-resistant armoured vehicle, perhaps to keep its sophomores in check.

Sacking the bullies

Yet there are examples of police forces that have reformed. The Los Angeles police department made its police less like an occupying army after the riots that followed the beating of Rodney King in 1991, which like Mr Garner's choking was filmed by a bystander. New York's department did something similar, banning officers from firing shots as warnings, from shooting at vehicles or from firing unless they thought a life was in danger. The number of shots fired by police in New York has fallen by more than two-thirds since 1995.

In both cities the police are now blacker than the populations they serve—the opposite of Ferguson, Missouri. New York has begun a pilot programme under which officers will wear body cameras. The recordings will be used to deter bad behaviour both by police and by the public; to provide evidence after violent encounters; and to protect officers against baseless complaints.

Even with these changes, "There is at least one crazy cop in every precinct," says a retired NYPD officer. Everyone else knows who they are, but they are impossible to sack until they do something really stupid. The officer who choked Mr Garner had been sued for wrongful arrest, and was accused of ordering two black men to strip naked in the street for a search. (He denied it, and one case was settled.) Reformers think the procedure for sacking bullies in uniform should be much swifter. Those who enforce the law should also obey it. ■




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Torture

Shining a light on the past

WASHINGTON, DC

A Senate report on CIA torture sparks fury

JOHN MCCAIN, the senior Republican senator from Arizona, spent five-and-a-half years in a Vietnamese prisoner-of-war camp, where he was constantly beaten and sometimes tied up with ropes and left in excruciating "stress" positions. So he knows what he is talking about when he says that torture "compromises that which most distinguishes us from our enemies".

On December 9th, he gave a speech following the publication of a report by the Senate Intelligence Committee into torture by the CIA between roughly September 11th 2001 and the end of George W. Bush's presidency. Such tactics, he said, "stained our national honour".

The report, which has taken five years to produce, has brought the misdeeds of a decade ago back into the spotlight. It paints a picture of an agency skirting the limits of law and morality in pursuit of its mission. It also raises difficult questions about the effectiveness of congressional oversight. The CIA has already hit back—and with the notable exception of Mr McCain, so too have Republicans.

The details of the "enhanced interrogation techniques" described in the report are mostly not new, but they are still shocking. Detainees were waterboarded, deprived of sleep, forced to endure "rectal rehydration" (replacement of fluids), beaten up and threatened. A footnote suggests that one officer played Russian roulette with prisoners.

This inhumane treatment, the report argues, did not even produce valuable information. Much useful intelligence acquired from tortured detainees—such as that which helped lead to the killing of Osama bin Laden—was given freely, before the "enhanced" interrogation began. The Senate's investigators allege that the CIA concealed the brutality of its tactics and exaggerated their value in briefings to Congress, the president, the media and others.

The report has already generated a fierce rebuttal from the CIA. Its current director, John Brennan, admitted that the agency "did not always live up to the high standards that we set for ourselves", but insisted that the failings took place in a short period not long after the September 11th attacks, when the agency was under intense pressure—largely from politicians—to ensure that another attack on that scale would not happen again. He also disputed the charges that the CIA's techniques were not useful and that it misled Congress. Previous investigations have shown that senior lawmakers from both parties, including Nancy Pelosi, the top Democrat in the House of Representatives, were briefed about waterboarding and raised no objection at the time.

In an interview with *Politico*, Michael Hayden, a former CIA director, called the Senate's conclusions "analytically offensive". He suggested that far from being kept in the dark, Mr Bush personally approved techniques such as waterboarding, and that the Senate committee had considered evidence only from the CIA, not from White House records. Both noted acidly that the Senate's report is based entirely on an examination of internal documents—the investigators did not interview agents.

Yet some of the allegations may stick. For example, the Senate committee has acquired a photograph showing "well-worn" waterboarding tools at a prison in Afghanistan. The CIA had claimed until now that only three prisoners had been subjected to this torture—and none of them at the Afghan site. At the same site, prisoners were kept shackled in dark cells with only buckets as toilets and with loud music played constantly.

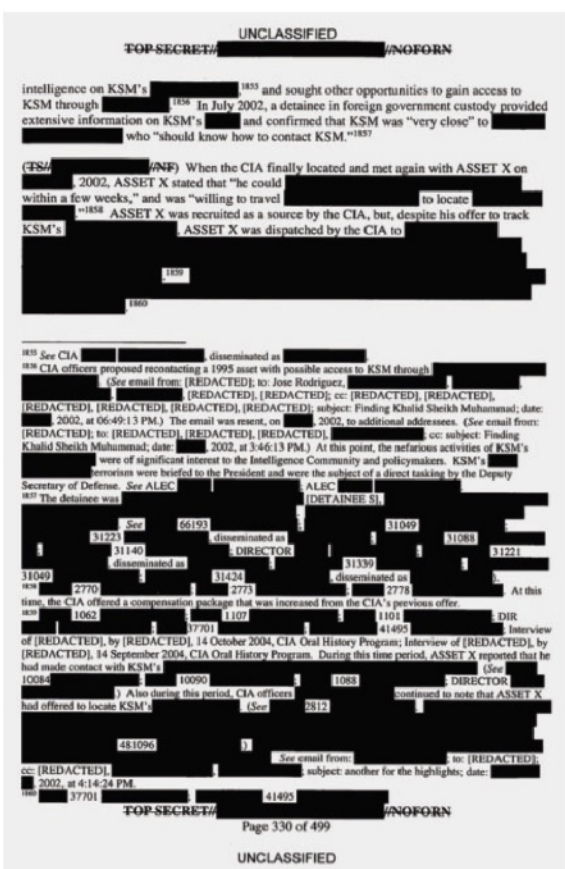
Were these methods legal? In 2012 Barack Obama and his attorney-general, Eric Holder, decided not to prosecute any CIA agents for torture (John Kiriakou, an ex-agent who leaked details of the programme to reporters, was jailed). On December 10th Mark Udall, an outgoing Democratic senator, accused the CIA of lying and called for agents who are implicated in torture to be sacked or prosecuted.

The report embarrasses American allies. In Poland, the former president Aleksander Kwasniewski and the former prime minister Leszek Miller had to admit that they allowed the CIA to run "black sites" on Polish soil, but they insisted they had never approved American torture techniques. "With this publication the Americans lose their potential as an ally," grumbled Mr Kwasniewski. In less friendly countries, such as China and Iran, the revelations have sparked predictable sniping about how America should not moralise abroad.

Yet the biggest question raised, says Michael Glennon, an intelligence specialist at Tufts University, is about the scrutiny of the CIA by the elected parts of the American government. This report, he points out, has taken so long to be published that the CIA's rebuttal was in fact written 18 months ago, in 2013. In the period when the abuses were going on, the Senate's Intelligence Committee failed to subpoena documents, interview CIA officials or ask to visit black sites. The people who were meant to scrutinise America's intelligence services were instead co-opted. Now, says Mr Glennon, they appear to be exercising "hindsight, not oversight".

In January Republicans will take over the Senate, and they are in no mood to curb the CIA. Marco Rubio, a Republican senator from Florida, says the report's publication "places American lives in danger". Many Republicans agree, or see it as an attempt to smear Mr Bush.

Mr Obama, meanwhile, has refrained from criticising the agency harshly. He has been in charge of it for six years. It and America's other intelligence agencies no longer torture people. Instead of capturing suspected terrorists, Mr Obama prefers to have them blown to pieces by drone-fired missiles. ■


UNCLASSIFIED

TOP SECRET//[redacted]//NOFORN

intelligence on KSM's [redacted].[1855] and sought other opportunities to gain access to KSM through [redacted].[1856] In July 2002, a detainee in foreign government custody provided extensive information on KSM's [redacted] and confirmed that KSM was "very close" to [redacted] who "should know how to contact KSM."[1857]

(TS//[redacted]//NF) When the CIA finally located and met again with ASSET X on [redacted] 2002, ASSET X stated that "he could [redacted] within a few weeks," and was "willing to travel [redacted] to locate [redacted]."[1858] ASSET X was recruited as a source by the CIA, but, despite his offer to track KSM's [redacted], ASSET X was dispatched by the CIA to [redacted]

[1859]

[1860]

[1855] See CIA [redacted], disseminated as [redacted]

[1856] CIA officers proposed recontacting a 1995 asset with possible access to KSM through [redacted]. (See email from: [REDACTED]; to: Jose Rodriguez, [redacted] [REDACTED], [REDACTED]; cc: [REDACTED], [REDACTED], [REDACTED], [REDACTED], [REDACTED], [REDACTED], [REDACTED]; subject: Finding Khalid Sheikh Muhammad; date: [redacted] 2002, at 06:49:13 PM.) The email was resent, on [redacted], 2002, to additional addressees. (See email from: [REDACTED]; to: [REDACTED], [REDACTED], [REDACTED], [redacted] cc: subject: Finding Khalid Sheikh Muhammad; date: [redacted] 2002, at 3:46:13 PM.) At this point, the nefarious activities of KSM's [redacted] were of significant interest to the Intelligence Community and policymakers. KSM's [redacted] terrorism were briefed to the President and were the subject of a direct tasking by the Deputy Secretary of Defense. See ALEC [redacted], ALEC [redacted] [DETAINEE S].

[1857] The detainee was [redacted]. See [redacted] 66193 [redacted] 31049 [redacted] 31223 [redacted] disseminated as [redacted] 31088 [redacted] 31140 [redacted] DIRECTOR [redacted] 31221 [redacted] disseminated as [redacted] 31339 [redacted] 31049 [redacted] 31424 [redacted] disseminated as [redacted] 2770 [redacted] 2773 [redacted] 2778 [redacted].

[1858] At this time, the CIA offered a compensation package that was increased from the CIA's previous offer. [redacted] 1062 [redacted] 1107 [redacted] 1101 [redacted] DIR [redacted] 37701 [redacted] 41495 [redacted] Interview of [REDACTED], by [REDACTED], 14 October 2004, CIA Oral History Program; Interview of [REDACTED], by [REDACTED], 14 September 2004, CIA Oral History Program. During this time period, ASSET X reported that he had made contact with KSM's [redacted] (See [redacted] 10084 [redacted] 10090 [redacted] 1088 [redacted] DIRECTOR [redacted]) Also during this period, CIA officers [redacted] continued to note that ASSET X had offered to locate KSM's [redacted] (See [redacted] 2812 [redacted] 48 1096 [redacted])

[redacted] See email from: [redacted] to: [REDACTED]; cc: [REDACTED], [redacted], subject: another for the highlights; date: [redacted] 2002, at 4:14:24 PM.

[1860] [redacted] 37701 [redacted] 41495

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UNCLASSIFIED

Hindsight, not oversight

Farming in the Midwest

Of tech and troughs

CHICAGO

The fat years for farmers are over; thank God for taxpayers

ON A grey day in December Johnny Anderes, the head chef at The Kitchen, a trendy restaurant in Chicago, is checking out a farm in an unlikely place. FarmedHere, which claims to be one of America's largest "indoor vertical farms", occupies 90,000 square feet of former warehouse in a run-down Chicago suburb. It grows three types of basil, baby kale, micro-radish and arugula (rocket) in vertically stacked beds, lit with LEDs and fed with water from tanks of hormone-free tilapia.

Mark Thoman of FarmedHere says the farm will be able to produce 1m pounds of leafy greens a year when it reaches full capacity. He concedes that his ultra-local, organic produce is costlier than food grown on the Midwest's megafarms. But wealthy foodies don't mind. "We have more demand than we can supply," he says.

Carl Zulauf of Ohio State University sees two trends in American farming. One is the growth of local microfarms for picky posh people. The other is the success of high-tech big farms that produce cheap food for everyone else, as well as plant-based fuels and chemicals.

Farmers have just had five fat years during which crops such as maize (corn), soyabeans, sugar cane, cotton, rice and potatoes have generated record profits. Now the demand for (corn and sugar-based) ethanol is stagnant, the Chinese economy is slowing and the supply of most crops was bigger than demand this year. "We are now entering a boom-moderation period," declares Chris Hurt at Purdue University in Indiana.

The Department of Agriculture (USDA) forecasts that net farm income will be $96.9 billion in 2014, down 23% from 2013. The forecast for this year is the lowest since 2010, but still 15% higher than the previous ten-year average. Income from crops is expected to fall 12.3%, mainly because of weak prices for corn and soyabeans.

Many farmers, however, will compensate by raising more livestock, for which 2014 was a bumper year. According to the USDA, income from animal farming will increase by 14% this year, largely due to record prices for beef and milk. Low crop prices mean cheaper animal feed, which is excellent news if you have pigs to fatten.

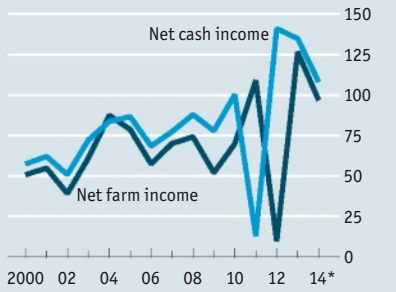
Analysts expect crop prices to remain low this year, next year and maybe even longer. A bushel (25kg) of corn now costs $3.81, down from $8.49 in August 2012. This year, thanks to the taxpayers who were held down and fleeced by the latest farm bill, farmers will receive up to $5 billion in subsidies through a new model of crop insurance. No matter how rich they are, they get paid if their crops fail or prices fall too far. The payouts "will certainly be much higher than the $2 billion in direct payments that farmers received last year", says Vincent Smith of Montana University, who thinks crop farmers should buy their own insurance without subsidies.

Crop insurers will adjust rates to the new crop prices, so the crop-insurance bonanza won't last for ever. Happily for farmers, they will still get subsidies through the commodity-insurance programme, another provision of the farm bill that protects farmers against "multi-year risk". Plenty of farmers also built up reserves during the boom years. The average wealth of a farm household is four to five times that of a non-farm household. At least 50 billionaires received farm subsidies between 1995 and 2002, according to the Environmental Working Group, a watchdog.

One measure of the health of the farm business is the price of farmland, which rose sharply in the Midwest after 2009 but has now settled down, thanks to the fall in crop prices, according to the Federal Reserve Bank of Chicago. Fields in Indiana and Michigan became a little costlier in the year to October, but those in Illinois and Iowa got cheaper, and there was no change in Wisconsin. This could mean leaner days ahead. Time to hire more lobbyists? ■

Changeable as weather

Farm income, $bn



Source: US Department of Agriculture *Forecast

Urban foraging

Salad daze

SANTA BARBARA

Hipsters are foraging for greens in urban parks

SHOPPING for salad in supermarkets is too easy. A bag of ready-washed baby greens costs only $3 at Walmart, and takes no time to lift from the shelf. So a new breed of foodie spends hours foraging for plants in city parks and vacant lots. For what can compare with the joy of ripping up the roots of a mallow plant and eating the mucus they produce when boiled? Many wild American plants are edible but unavailable in supermarkets: dandelion, pig weed, bull thistle, skunk vine. But not everyone recognises them. Enter the foraging gurus, who teach hipsters how to pluck on the wild side.

"Green Deane" Jordan charges $30 for a foraging excursion in Orlando, Florida;



demand exceeds supply, he says. New foraging apps, websites and books are making it easier than ever to score free food. But this only part of the story.

Foraging fits the anti-corporate faith of many hipsters. People are "yearning for something that's real", says Frank Grindrod, who teaches foraging in Massachusetts. Urban parks typically offer more plant varieties than similarly sized wilderness areas. And city greenery holds more calories per acre than wildlands that are picked over by deer, says Steve "Wildman" Brill, who sells a 26-language "Wild Edibles" app and gives foraging tours in New York city parks.

Wild food tastes better than you might expect, enthusiasts say. Cattail roots, roasted until caramelised, have a pleasant chestnut flavour. The mucus of the mallow plant can substitute for egg whites to enrich meringues.

Roughly 18% of Americans forage at least once a year, up from 13% in 1999, says Marla Emery, a geographer at the US Forest Service. ForageSF, a San Francisco firm, serves $100 dinners with foraged ingredients such as beached kelp and fennel pollen. Iso Rabins, the founder, had hoped to employ staff foragers but found that the laudable attributes of folks willing to forage full-time did not include promptness in returning calls or punctuality. He now uses freelances instead.



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Charter schools

Big, not easy

NEW ORLEANS

Revolution and innovation in some of America's toughest neighbourhoods

AS PUPILS file into their classroom at Kipp Renaissance, a high school in a battered corner of north-east New Orleans, each one stops to shake the hand of a history teacher. "Changes", a rap song by Tupac about the struggles of being poor and black in America, plays quietly in the background. Within a minute or two, the dozen teenagers—all black—are busily filling in test papers. Soon afterwards, Mr Kullman, the teacher, begins rapping himself—hopping around the room demanding quick-fire answers to questions about the civil war. Pupils shout back answers in chorus.

Kipp Renaissance is one of New Orleans's newer high schools. Since Hurricane Katrina hit in 2005, only six traditional public schools, directly run by the city, remain. Instead 94% of pupils now attend charter schools, which are publicly funded but run by independent non-profit organisations such as Kipp (in full, the "Knowledge is Power Programme").

Change began in 2003, when Louisiana created a Recovery School District (RSD) to take over and turn around failing schools across the state. Katrina dramatically accelerated the process: the RSD now controls most schools in New Orleans. Since 2008 alone, it has closed about 50 and presided over the opening of an equal number of charters. The district organises admissions and expulsions, and helps allocate school buildings. But staffing, teacher training, transport, catering and much else are left in the hands of schools and the charter chains which run them.

A decade ago, teachers in New Orleans were demoralised. The city's school district had eight different superintendents in the decade to 2005, none of whom managed to curb corruption or control waste. Affluent whites had fled the system: before Katrina New Orleans was roughly 67% black and 28% white, yet only 6% of public-school pupils were not black.

Under the new regime, schools have sharply improved. In 2004 just 16.5% of pupils in New Orleans's schools beat Louisiana's state performance score; by the end of the most recent school year, 31.1% did, according to the Cowen Institute at Tulane University. High-school graduation rates have risen from 55% before Katrina to 73% now; drop-out rates have fallen by half.

After Katrina, most of New Orleans's 7,500 unionised teachers were, in effect, fired. Charter schools have hired some back—but they have also hired plenty of new, young ambitious teachers, often straight out of college, who work the long days and extra hours without complaint.

The ability to choose a school matters less than you might expect. Autonomy and central scrutiny matter more. New Orleans's charter schools are probably more closely watched than public schools ever were, and those that fail to meet targets do not get their charters renewed. With academic targets set centrally, schools tend to agree on what works best.

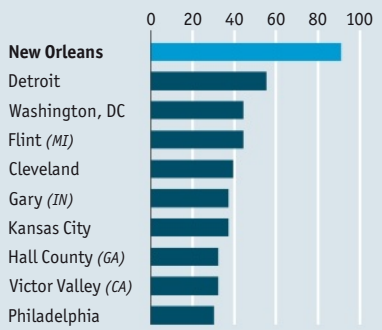
The challenge now is whether improvement can be sustained. On national tests, Louisiana still comes last or nearly last on a range of measures. What the state deems "mastery" of a subject barely passes for acceptable in other states: by the standards of Massachusetts or Maine, schools in New Orleans remain terrible. Middle-class whites still mostly send their children to private schools.

One worry is money. Before Katrina, spending per pupil in New Orleans was $7,900 per year, about the same as in Louisiana at large. Last year the figure was $12,797—much more than the state average. Federal money, doled out to help rebuild after the hurricane, now pays for repairing almost all the city's school buildings. But it will not last for ever.

At some point, the city's overworked teachers may begin to struggle. Some critics say reform has been imposed paternalistically by white reformers on black communities, and so has only limited support. Yet in a vote on December 6th a new tax for school maintenance was easily approved by the city's voters. They, and their children, seem to like what they are getting. ■

Flight to charters

Charter-school students as a % of all public-school students* (2013-14)



Source: National Alliance for Public Charter Schools

*By school district

New York life

Mayor v mares

NEW YORK

Tensions are mounting between Bill de Blasio and the horse-carriage industry

THEY are quaint, gilded, adorned with plastic flowers and lend a pungent aroma to Central Park South. Tourists happily fork out $50 a time for them. But Bill de Blasio, New York's mayor, wants carriage horses off the city streets. At his request two councilmen introduced legislation on December 8th to ban the city's horse-carriage trade. Animal-rights supporters are happy, but the drivers are furious—as is the (aptly named) Teamsters union, which represents them.



Something new to ban

The horses, drivers say, are treated well. They get five weeks' holiday a year, more than most New Yorkers. By law, they cannot work when it gets too cool (below minus 8°C) or too hot (above 32°C). They eat "free choice" hay, are groomed daily, and get hoof-and-tooth care. Their spacious stables are inspected and mucked out regularly, unlike the city streets. Indeed the stables sit in so choice a bit of Manhattan that some say the property developer behind the ban might have an ulterior motive, though both he and the mayor deny it.

Mr de Blasio wants to bring in $170,000 vintage electric cabs instead, putting 300 drivers out to pasture. Ex-horse drivers will not have to buy a $6,000 medallion, should they wish to switch. But yellow-cab drivers are begging the mayor to hold his horses as, already plagued by Uber, a popular taxi app, they do not want more competition.

Polls show that two-thirds of New Yorkers disapprove of a ban on the horses. So far, no matter how much people nag him, the mayor is unmoved. The mares, however, may be.

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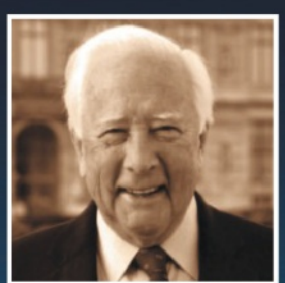
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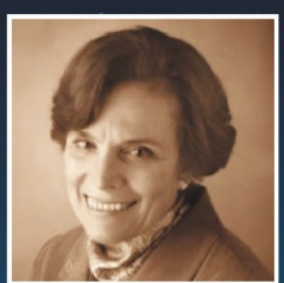
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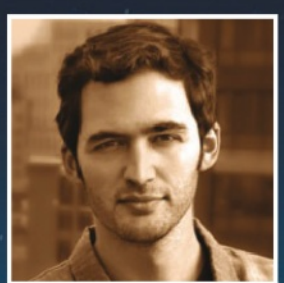
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Lexington | The immigrant numbers game

Why Barack Obama's partial amnesty won't be reversed



SOMETIMES the hardest questions come from friendly crowds. Barack Obama on December 9th made a foray into the heartland to promote his plan to shield millions of undocumented migrants from deportation. He chose to speak in Nashville, a once-sleepy (if tuneful) city that has seen its foreign-born population roughly double in a decade. That reflects a broad trend: millions of migrants, most of them Hispanic, have moved to the South and Midwest in recent years, flocking to small towns and rural counties that last saw hefty in-migration in the days of crinolines, carpet-bags and spats.

After a thoughtful speech defending immigration ("It keeps us young, and it keeps us invigorated," he said), Mr Obama took questions. Nashville's Hispanics love you, began his first questioner. Then came a tougher query. If the next president scraps the new executive action, will those who use it to seek temporary work and residency papers be first in line for deportation? Mr Obama's answer, simplified, was: there's safety in numbers.

A permanent immigration law passed by Congress would be much better, the president said—but even temporary papers should be politically hard to reverse. He added an interesting caveat, though. Local governments, churches and community groups need to sign up more than "just a few people in a few pockets". Mr Obama's answer is revealing. Republicans in Washington, DC may be enraged at being side-stepped by Mr Obama, and seem set to stall any congressional action on immigration until he is out of office in 2017. But for all that, the president is wagering that the country at large realises that something must be done to regularise a migrant population that they see all around them, at school gates in conservative small towns, cheering on youth soccer teams in suburban parks, and filling hard, low-paid jobs in states of every ideological hue.

Go back just a few years, and the idea that migrants might find safety by showing their strength would have sounded risible. Nashville is a laid-back place: a tourist-friendly Democratic-voting dot in the middle of the conservative Bible Belt. Even so, its calm was tested when migrants began arriving in large numbers a generation ago, swelling a once-titchy foreign population centred on Kurdish refugees and Japanese car executives. City- and state-level politicians vied to restrict migrant access to public services. They tried to use everyone from police to schools to track unlawful residents, speeding their deportation. There were calls to "demagnetise" Tennessee as a destination. In 2009 a referendum was held on making Nashville "English-only", which would have barred the city from offering foreign-language information, services or even interpreters (it was voted down).

Activists remember a dark period. In 2008 the Tennessee Immigrant and Refugee Rights Coalition counted 65 anti-immigrant bills proposed in the state legislature. Migrants recall fear, too. Karla Ruiz, a Mexican caterer, remembers driving her young (American-born) daughter in terror that even a burned-out brake light might trigger a police stop and immigration check leading to her deportation. Karl Dean, a Democrat who has been Nashville's mayor since 2007, admits to a period when Latinos "felt they couldn't engage with the police or city government".

Yet that period from 2009-11 now looks like a high-water mark for nativism. Local firms campaigned hard against Nashville's English-only proposal: with a global brand, Nashville cannot be "narrow" in its thinking, explains Ralph Schulz, president of the chamber of commerce. This year the Republican governor, Bill Haslam, has declined to join 17 other states in suing Mr Obama over his executive action. The governor is no liberal squish: he just has other priorities, starting with inward investment and upping the number of Tennesseans who go to college.

Change can even be detected in the state legislature, where Republicans hold crushing, three-to-one super-majorities in both houses. The flow of kick-'em-out bills slowed in 2012 and 2013. In 2014 a Republican state senator from Chattanooga, Todd Gardenhire, easily passed a law clarifying that Tennessee's public universities can admit American-born children of undocumented parents at the same discounted rate as other local residents. He could not pass a more ambitious bill, offering in-state tuition rates to kids who came illegally as children and who do well at school, but Mr Gardenhire vows to try again. In the past five years some 18,000 Hispanic families have headed to his district, he reports, many after neighbouring Alabama and Georgia passed "draconian" laws. Yes, they arrived illegally, but that is no reason to "punish kids", argues the senator. "They are here, and they are trying to do their best." To date, lots of his colleagues are "afraid" of challenges from the right in party primaries. But, he says, they know that educating youngsters makes "economic sense".

Welcome to Nashville

City politicians, school officials and activists talk of a tipping point. With one-in-eight Nashville residents now foreign-born, and one-in-three local children living in a bilingual or non-English household, the city cannot simply wish newcomers away. Ms Ruiz reports that American friends may disapprove of Mr Obama's executive action, but they are happy for her that it will secure her legal papers. Mayor Dean goes further, drawing on the age-old traditions of American civic boosterism. Thanks to its ethnic diversity, "Nashville is a much more interesting city," he says, with a "buzz" and an "energy" that bodes well for the future. In a highly mobile country, if people pick Nashville, that is "the highest compliment they can pay," he adds.

That is a very American statement. It puts timid, grudging politicians in other rich countries to shame. Mr Obama has taken a gamble that the nationwide spread of migrants helps the cause of immigration reform more than it harms it. Tennessee's example suggests he might be right. ■



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Violence in Mexico and Central America

A lethal culture

HIALEAH, NICARAGUA

Drugs and machismo are a dangerous mix

FROM the age of 13 Victor Toruño walked the dirt streets of Hialeah, a slum in Managua, Nicaragua's capital, with a shotgun in his hands. His gang, Los Cancheros (a *cancha* is a sports pitch), ruled the neighbourhood. "We felt that with guns we were like gods, we could do anything we liked," he says. Gang members were his only friends; a tattoo of a skull on his left arm commemorates one whose head was cut off with a machete. "I was *machista*. I was the one who told everyone what to do. I was like a psychopath," he says.

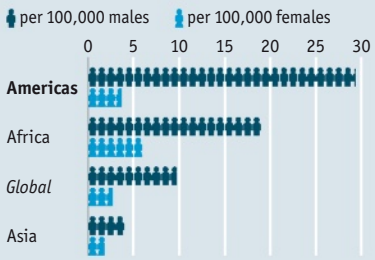
Mr Toruño, now 27, absorbed the codes of machismo from infancy. While he hid under the bed, his father would beat up his mother. His father later abandoned the family. Mr Toruño developed the same traits. He abused his partner, Martha, yelled at his two children and felt hatred for those outside his gang. Martha started to hate him, too. She considered stabbing him with a kitchen knife after he punched her in the face. "I was living with an animal," she says. Eventually she left him.

In 2013 social workers from a Nicaraguan NGO, the Centre for the Prevention of Violence (CEPREV), approached Mr Toruño in Hialeah. They showed him crude cartoons that mirrored his own life of violence, alcoholism and domestic abuse. "I saw myself in every image," he says. It affected him so deeply that he agreed to attend workshops to discuss the impulses that machismo had encouraged in him.

Machismo is a tricky topic to discuss, not just with hard cases like Mr Toruño. Sociologists say that though the origins of the word are Spanish, it is a lazy stereotype applied to Latin American men. Macho cultures exist everywhere, they note. Scholars seeking to explain the horrific murder rates in Latin America (see chart) point to the region's role as a conduit for drugs and the gang culture that the trade brings with it. The few social programmes that touch on machismo deal with the damage it does to women, rarely with its effects on men.

Death march

Murder victims, 2012



Source: UNODC

Yet machismo helps entrench violence and worsens its effects. Souped-up notions of masculinity are not uniquely Latin, but they are rife in the region, especially among poorly educated youths. Women suffer greatly; men do at least as much. The murder rate among men aged 15-29 in Mexico and Central America is more than four times the global average for that age group, according to the UN. More than 90% of victims in the region are men; globally the average is 79%. A 2011 study of murders in Ciudad Juárez, on Mexico's border with the United States, contends that the sadistic humiliation of victims that marks these crimes arises from the region's corrosive understanding of masculinity.

Global forces exacerbate the problem. Young men, competing for jobs in a global market, have fewer opportunities; studious women have more. Denied the role of breadwinner, some men seek to prove themselves through crime, violence and domestic abuse. Often they have grown up without fathers because of divorce, war or migration. The result, says Monica Zalaquett, the head of CEPREV, is a "pressure-cooker effect" that cannot be contained in later life. Tackling machismo directly can lessen the chance of explosion.

During 15 years CEPREV says it has broken up about 90 gangs in Nicaragua by focusing on young men's exaggerated sense of masculinity and the violence that it leads to. In 2012-13 CEPREV spent six months working in a slum adjacent to Hialeah where crime was rife. Social workers counselled gang members on their lack of self-esteem, their concepts of machismo, their broken families and their pent-up anger. They also sought to educate the police about the dangers of machismo. Citing police statistics, CEPREV claims that crimes such as mugging, theft and sexual harassment more than halved after its intervention. In neighbouring Hialeah, where CEPREV had not yet entered, crime rose 16% during the same period.

The agency cannot prove that its work caused the drop in crime; other factors may have helped. But the results are so promising, says Andrew Morrison, head of gender issues at the Inter-American Development Bank, that the bank is funding evaluations of CEPREV's programmes in neighbouring Honduras, which has one of the highest murder rates in the world. If they prove successful, they could be expanded into much bigger crime-prevention efforts run by the government.

But funding for such programmes is ▸▸

scarce, not least because governments worry that they are touching a cultural taboo. Focusing on protection of women seems easier. Two years ago Sergio Muñoz was sponsored by the UN Development Programme to hold a series of crime-prevention workshops for police in Costa Rica, called "masculinity and violence". He was baffled to discover that funding for such projects has dried up. "You can't hope to improve the fate of women if you don't work with the men, because these patterns of masculinity are repeated from generation to generation," he says.

In Mexico a programme run by the interior ministry employs social workers to counsel children on the perils of machismo. Officials acknowledge that it is a new field, and that they were laughed at when they first proposed the idea of encouraging "new masculinities". But it may be changing attitudes. In a particularly violent part of Gómez Palacio, in the northern state of Durango, children counselled on gender equality have painted street scenes showing men carrying cudgels and verbally abusing women. One young boy, César Vargas, came up to your correspondent and told him with no prompting that men are "very rough" and should learn to respect women. Older children are enticed into counselling with incentives like football coaching. Grown men are generally considered lost causes.

Mr Toruño's experience suggests that is wrong. He is now reunited with Martha. At a gathering of family and friends their two children run excitably between them. "I used to think women were useless. Now I think they are a treasure," he says. He helps at home with the children and the housework, and shrugs it off when others laugh at him. Los Cancheros do not laugh; he has persuaded his gang mates to renounce guns and enter counselling. Without it, he says, "I'd be dead, in a wheelchair or in prison by now." Half a dozen wiry young men around him nod in agreement. ■

Canadian identity

Chomping Timbits

OTTAWA

Burger King bought not just a fast-food chain but a national symbol

WHEN Burger King, an American fast-food chain, bid last summer to acquire Tim Hortons, the largest chain in Canada, it put the ruling Conservative party in an awkward position. Timmy's is a national symbol, having aligned its brand with the twin Canadian passions of watching ice hockey and eating doughnuts (often at the same time). It has been the backdrop of choice for government politicians pandering to ordinary Canadians who frequent its 3,453 outlets.

Stephen Harper, the prime minister, famously skipped the UN General Assembly one year to tour the firm's "innovation centre", where he rhapsodised about Timbits (doughnut holes to Americans) and the puck-handling skills of the late Tim Horton, the ice-hockey player who founded the firm in 1964. His government spent millions to set up a Tim Hortons in Afghanistan for Canadian troops and made its servers eligible for military medals. On December 9th the firm's shareholders approved the sale.

Aside from yet another Canadian firm falling into the hands of foreigners—the large mining firms and breweries are long gone, as is the Hudson's Bay Company, whose fur trade helped settle much of the country—there was not much to object to in the $11-billion takeover. Tim Hortons itself had an earlier spell of American ownership—it belonged to Wendy's until 2006. That did not stop the government from extracting some unusual promises. Burger King will put the headquarters of the merged company in Canada. It pledged not to market products that share the American and Canadian brands, to accelerate Tim Hortons' international expansion and to encourage franchisees to keep the same number of workers.

Burger King is happy to put the head office in Canada, which will cut its tax bill (though it denies that this is its main motive); the company will be managed from the United States. But the demand to speed up expansion looks intrusive and the employment promise is unenforceable: franchise owners can hire and fire whom they please. Why not demand that Tim Hortons continue to use Ontario honey for its doughnut glaze, one sarcastic pundit wondered.

James Moore, the industry minister, said the conditions were imposed by popular demand. With an election scheduled for October 2015, campaign tacticians must soon decide whether Tim Hortons is still an appropriate setting for photo ops. As long as the chain serves Timbits and double-doubles (coffee with two creams, two sugars) the answer is likely to be yes.



Brazil's dictatorship

The final reckoning

SÃO PAULO

An investigation into human-rights abuses names culprits, but far too late

FOR a country whose recent presidents all suffered at the hands of the military regime that ruled from 1964 to 1985, Brazil has been awfully slow to probe that dark chapter of its history. Dilma Rousseff, the incumbent, was tortured. Her two immediate predecessors, Luiz Inácio Lula da Silva and Fernando Henrique Cardoso, were respectively jailed and forced into exile. On December 10th, after nearly three years of sleuthing, the National Truth Commission presented its report into human-rights abuses committed from 1946 to 1988, with special attention to the dictatorship years. "Brazil deserves the truth," said Ms Rousseff, who cried upon receiving the report.

The 4,400-page publication stands out among similar efforts in other countries. It names 377 individuals as responsible for 434 political murders and disappearances. They include all eight military presidents and the top brass, as well as minions who carried out their orders. Their crimes were deliberate acts of policy, not occasional excesses, the report makes clear.

Most culprits are either dead or in their dotage. Under an amnesty law enacted in 1979 (to benefit exiled dissidents) few will face trial. The commission hopes its report will prompt a rethink of the amnesty, which falls foul of human-rights treaties. But for now, symbolism must suffice. While no substitute for justice, admits José Miguel Vivanco of Human Rights Watch, a New York-based lobby group, "it is a start".

The decision to name and shame is not unprecedented: El Salvador did so in 1993. In Brazil's case it is easier, because the wait has been so long. Truth commissions are usually established soon after regimes' (often disorderly) collapse. Truth, the thinking

goes, is the first step toward reconciliation. In Brazil, where it comes nearly 20 years since the first reparations were awarded to victims' families, it is one of the last.

Oscar Vieira of FGV Law School in São Paulo attributes this to Brazil's penchant for "slow and steady" transitions. Even the army coup was a negotiated affair, agreed among political, military and business elites to head off what they saw as a drift toward socialism. Brazil's restored democracy eschewed purges; not until 1999 did a civilian become defence minister. Only after the old guard bowed out could unencumbered truth-seeking commence.

Two-thirds of today's Brazilians had not been born when military repression peaked in the 1970s. Many who were alive then recall the period's economic boom rather than the generals' crimes. These were modest beside the 2,000-3,000 murders and disappearances in Chile and 10,000-30,000 in Argentina. Brazil's police killed 2,212 people last year alone. The armed forces are popular.

Perhaps for these reasons, they did not co-operate with the truth commission. It could summon soldiers who had served the regime as junior officers, but could not compel them to speak. Most stayed silent, laments Pedro Dallari, its chairman. They also claimed that many relevant documents had been destroyed.

Unlike their Chilean and Argentine counterparts, or indeed the Brazilian state, the generals refuse to acknowledge their predecessors' sins, let alone apologise—either from a misplaced *esprit de corps* or a belief that the crimes were justified to defend the country against a red threat. In letters to the defence minister in August the three services chiefs did not deny past misdeeds. But they stopped short of admitting guilt. Unless they do, no amount of truth will ensure complete reconciliation. ■

Bello | The power of the cursor

The best and worst of times for Latin American journalism

LAST December *La Nación*, an Argentine newspaper, published a series of reports revealing that companies owned by Lázaro Báez, a construction magnate, had made year-round block bookings for dozens of rooms in a luxury hotel in Patagonia owned by President Cristina Fernández de Kirchner and her late husband, Néstor Kirchner. Mr Báez, a former bank clerk and longstanding friend of Kirchner, has been the largest single beneficiary of public-works contracts in Patagonia in the decade in which the Kirchners have ruled Argentina. The paper found no evidence that the rooms were ever occupied.

The result of a two-year investigation, backed up with documentary evidence, this scoop had a big impact. A judge is now investigating the case, despite official harassment. The stories won the $15,000 annual prize for Latin American investigative journalism awarded by Instituto Prensa y Sociedad, a Lima-based NGO, and Transparency International, a Berlin-based anti-corruption watchdog.

Bello was a member of the prize jury, as he has been most years since the prize was established in 2003. He has been impressed by the steady improvement in the quality of the entries. A growing cohort of the region's investigative reporters have postgraduate degrees from journalism schools in the United States and deploy the techniques of big data as well as old-fashioned sleuthing.

Yet if this is the best of times for Latin American journalism, it is also the worst. Media freedom is under greater threat than at any time since the end of the military dictatorships of the 1970s. The first danger comes from organised crime. According to the Committee to Protect Journalists, an NGO, Colombia, Brazil and Mexico have been among the world's 11 deadliest countries for journalists since



1992—though none of them suffers a conventional war. The killings have declined in recent years, but they continue: three journalists have been murdered this year in Paraguay, two in Brazil, two in Mexico and one in Peru (though in two cases the motive is unconfirmed). The vast majority of the killings go unpunished.

The second threat comes from autocratic governments, most blatantly in Venezuela and Ecuador but also in Bolivia, Nicaragua and to some extent Argentina. In Ecuador in August government liquidators shut down *Hoy*, a daily newspaper of the moderate left. Its editors blamed the withdrawal of all state advertising under President Rafael Correa, a radical leftist who dislikes independent media. Under Ecuador's Communications Law of 2013, newspapers are fined for such offences as failing to give sufficient coverage to a private visit to Chile by Mr Correa.

Venezuela's government has withdrawn licences from scores of broadcasters. In the past two years, businessmen friendly with President Nicolás Maduro's regime have bought three embattled independent media outlets, driving out critical columnists and investigative reporters. This phenomenon is spreading, with businesses in several countries, including Bolivia, buying media and making them "apolitical" in return for government contracts or state-funded advertising, according to Claudio Paolillo, who chairs the press-freedom committee of the Inter-American Press Association, a body of newspaper proprietors.

After a period of growth fostered by a fall in poverty and the founding of new tabloid newspapers, Latin America's print media are starting to suffer the digital disruption that hit their peers in the rich world a decade ago. In Brazil, one of the few places with reliable data, circulation of some of the biggest papers is still rising, according to IVC, which audits the figures. But print advertising in newspapers was down by 8% and in magazines by 14% in the year to August, according to Inter-Meios, which crunches these numbers. Several publishers have laid off journalists in recent years.

News websites are proliferating. Some, such as *El Faro* in El Salvador, have achieved big influence. Only half of Latin Americans are connected to the internet. But newspapers have only ever reached a small fraction of the region's population, points out Rosental Alves, the director of the Knight Centre for Journalism in the Americas at the University of Texas. Such websites can suffer government pressure as well. Where that is happening, as in Venezuela, social media can partially fill the news vacuum.

There is plenty of work for Latin American journalists to do. Many of the region's democracies are riddled with corruption and conflicts of interest. If democracy itself is to survive and prosper, such abuses by the powerful must be exposed so that they can be punished.

The Economist Intelligence Unit



Succeeding in the digital age

SERVING DIGITAL CUSTOMERS, EMPOWERING DIGITAL EMPLOYEES

Succeeding on digital platforms often requires a business makeover. Our turbocharged online, mobile and social world is pushing companies to become more data savvy, communicate with customers in new ways and react more quickly than ever to market change.

Although digital platforms offer immense opportunity, constant change, voluminous data and growing customer demands make them difficult to master. Organisational resistance can also be real. According to a March 2014 report by Gartner, a US industry research firm, many business leaders do not view digital as central to their organisations, even though their customers, products, business operations and competitors have gone digital.

To compete, companies must have in place market, technology and data strategies agile enough to capitalise on new market opportunities. But they cannot create those strategies or seize those opportunities without a coherent approach to people: their management and talent strategies must deliver exceptional digital experiences to today's empowered customers and differentiate the company in the marketplace.

Employees must have a deep understanding of data and digital platforms, the business opportunities they offer and the depth of organisational change they require.

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India's Jammu and Kashmir

Modi's northern lights

HANDWARA

The Hindu-nationalist prime minister campaigns in a mostly Muslim state

ONCE a separatist, now a politician, Sajjad Lone says that pragmatism is gaining in popularity in the disputed and sometimes strife-torn Indian state of Jammu and Kashmir. One example is that he stands a chance, just possibly, of being the next person to run the state, made up of the Hindu-majority, lowland region of Jammu and the Muslim-majority Kashmir valley in the mountains—with Muslims predominating overall. The third of five stages in a rolling state-assembly election took place this week. The whole thing wraps up on December 20th. A change of government is all but certain. Results may also reveal a profound realignment of loyalties.

From his garden in Handwara in North Kashmir, bathed in winter sunshine, Mr Lone says that Kashmiris "have become realistic in what is achievable" in terms of breaking away from India. He notes that those militants who call for boycotts and try to enforce them with violence are losing the battle. "I was in that camp, I know," he says. He is probably right, despite four attacks on December 5th, soon after he spoke, by fighters who crossed over from Pakistani territory and killed 21 people. Voters seem undeterred. Turnout at the polls has been high, at around 60-70%. And by voting, say Kashmiris, they are not giving up dreams of independence, just seeking better government.

One big change would be if voters broke an old duopoly of political families, each with links to Congress, the national party currently in opposition in Delhi. The historically stronger family is the Abdullah dynasty and its National Conference. It will be walloped this month. Omar Abdullah, its genial third-generation incarnation as chief minister, has proved out of touch, his government mostly beyond his control. Violent clashes between youths and police each summer from 2008 to 2010 left him looking powerless; in 2010 alone police killed over 110 youngsters. Worsening corruption only deepened the public's dismay at Mr Abdullah.

Then in September the chief minister spectacularly failed to show leadership as sudden floods hit Srinagar, Kashmir's summer capital. Officials had allowed people to build in the Jhelum river's flood channels, while badly maintained canal banks collapsed. Parts of the town remained under two storeys of water for nearly three weeks. Thousands of people have been displaced and many homes ruined. A muddy high-tide mark still runs around the walls of whole districts. Official recovery efforts were derisory, though the army gave out water and rescued some people. Mr Abdullah said the central government had held back recovery funds, but most Kashmiris pin the blame on him.

The other family, the Muftis, and their People's Democratic Party, is looking better placed. One party candidate, Haseeb Drabu, an ex-banker who has a chance of becoming state finance minister, predicts a narrow victory for his party, which insists it is less corrupt, and emphasises development. It does not call for secession but for self-rule within India. Yet journalists and some businessmen in Srinagar say that the two family parties are much alike in that they do the bidding of the central government in Delhi, divvy up the spoils of office, and slide into corruption.

By himself, Mr Lone will not end the duopoly. At best his grouping will win one or two of the 87 constituencies. Yet his fortunes are tied to the surging Bharatiya Janata Party (BJP) of India's prime minister, Narendra Modi. Previously not a serious actor in the state, the BJP has run a lavish campaign. It talks of winning "44-plus" seats, and for a Hindu-nationalist party it is striking that it has found 32 Muslim candidates—though its best chances lie among 26 Hindu-dominated seats in Jammu. After huge success nationally in the spring, victories in the states of Maharashtra and Haryana in October, and polls pointing to its winning in concurrent state elections in Jharkhand, no one writes off Mr Modi.

The BJP's strength is emboldening voters to ignore militants' calls not to go to the polls. Some three-way contests, notably in Srinagar, will be tight. Kashmiri Pandits, a community of Hindu Brahmins who were forced out in the 1990s but who can vote as if they were living at their old addresses, will boost the party. An opponent grumbles that the BJP "spends money like water" on newspaper ads, posters and volunteers. In a rare appearance for a prime minister in Kashmir, Mr Modi told a Srinagar crowd on December 8th that jobs and prosperity were what he was about. He targets the many young voters, fed up that ▸▸

years of protests have held back the economy and harmed job prospects. Some hope for a flood of public funds from Delhi should the BJP win. Certainly, it has been canny in seeking allies. Mr Lone, who calls the prime minister a "man of humility", would be the BJP's figurehead in Kashmir, even though not a party member.

His party's higher profile is already a victory for Mr Modi. Umar Farooq, the spiritual leader of Kashmir's Muslims, says he worries the party is spreading communal discord, as voters in Jammu form a Hindu bloc and as Shia-Sunni rivalry grows in parts of Kashmir. He warns that Mr Modi promotes the "fundamental" idea that India must be a predominantly Hindu country. A common fear is that the BJP plans to settle hundreds of thousands of retired soldiers in the valley, or to build segregated colonies to house returning Pandits.

For now, however, the BJP's priority appears to be to push aside Congress as the decisive outside party in Kashmir—and to become acceptable to Kashmiris in future elections. A journalist in Srinagar says the BJP is winning "the perception war" over Congress. Even ending up as a substantial opposition party in Kashmir may help the BJP show Muslim voters in other states, for example, in Bihar, West Bengal or Uttar Pradesh, that it is no bogeyman for Muslims. Kashmir, then, could prove a gateway to wider appeal in other parts of India. ■

Afghanistan

Old problems, new hope

As NATO lowers the flag, the Taliban have not been beaten militarily but politically they have been routed

MORE than 13 years after NATO launched its invasion of Afghanistan following the attacks of September 11th, its International Security Assistance Force (ISAF) this week lowered the flag at its headquarters in Kabul, the capital. The ceremony brought to a formal end ISAF's combat mission in Afghanistan. It was a moment for reflection on what went wrong and what went right for the West's military intervention, and a moment also to consider what kind of future beckons for a country that has suffered nearly four decades of war and insurgency.

This week's ceremony marked no dramatic change in the security landscape. Since a peak in 2011 of 140,000 foreign troops, over two-thirds of them American, the number has fallen steadily to 13,000. That is about the size of force that will stay on to "train, advise and assist" the Afghan National Security Forces (ANSF) for another year at least. It is pretty much what they have been doing since mid-2013, when the ANSF took the lead in fighting the Taliban in every province.

President Barack Obama has said that he wants all American troops out of Afghanistan by the end of 2016, but that plan could well change. He has recently reversed a short-sighted decision not to provide air support for the ANSF after the end of 2014. The "assist" bit of operation Resolute Support, as the new mission is called, had looked threadbare. Now NATO will continue to provide ground-attack, logistical and limited medical-evacuation support for Afghan forces until their own air force can fill the gap—at least a couple of years away. Special forces are also likely to carry out some counter-terrorism operations in partnership with the Afghans.

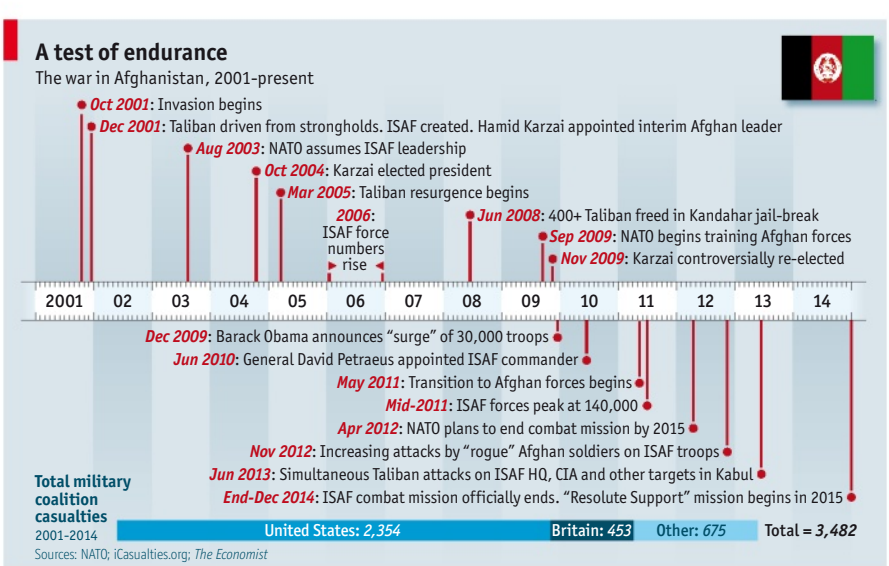
A chief reason for the rethink is that the violence generated by the Taliban insurgency remains uncomfortably high. Although the 340,000-strong Afghan forces are performing well, they are suffering heavy casualties. Over 4,600 have been killed in action this year, a 6.5% rise on 2013. The violence has not dropped off much with the end of this year's traditional fighting season. The Taliban now appear to be concentrating on mounting terror attacks in cities, especially Kabul, which create news headlines and are aimed at forcing out foreign civilians and frightening investment away.

Yet while the Taliban have very clearly not been defeated militarily, politically they have been routed. There was a good turnout in two rounds of the presidential election earlier this year—with nearly two-fifths of the votes cast by women—despite Taliban attempts at intimidation and disruption. The government of national unity which resulted after much wrangling and allegations of fraud is in the view of some a vindication of the West's intervention, whatever its cost in money and lives.

Both President Ashraf Ghani, a former World Bank technocrat, and Abdullah Abdullah, Mr Ghani's former rival and now prime minister in all but name, are committed to breaking with the seedy legacy of Mr Ghani's capricious predecessor, Hamid Karzai. How well they will work together remains uncertain (there is still haggling over cabinet posts). But they say they are united over an agenda that includes rooting out corruption, improving the still-awful state of basic services such as health care and criminal justice, re-emphasising women's rights and attempting to reset relations with Pakistan.

A recent nationwide opinion poll gave Mr Ghani an 84% approval rating. Even in the south, where the Taliban holds greatest sway, 76% were satisfied with his performance. Mr Ghani has also transformed sentiment among foreign donors of the aid on which Afghanistan's fragile economy depends. At an aid conference in London in early December, America's secretary of state, John Kerry, described Mr Ghani's reform programme as "an extraordinary moment of transformation".

Mr Ghani's approach is emblematic of a society that is a world away from the wretched, near-failed state that the country had become by 2001, following Soviet invasion and withdrawal, civil war and, from 1996, rule by the Taliban. Peter Thomsen, George H.W. Bush's special envoy to Afghanistan, has recently argued that whatever its mistakes, the American-led





The war that was

intervention reversed a slide into chaos and put an end to extremist tyranny and terrorist incubation.

Yet the mistakes also have to be acknowledged—and learned from. Perhaps the biggest was not starting the hard job of training a proper Afghan army until late-2009 rather than after the invasion, when relative calm prevailed for several years. However, when Taliban insurgents, with help from Pakistan, began returning in large numbers and the fighting intensified, it meant that more and more foreign troops were needed to prevent them from taking over large swathes of the country. That played into the Taliban narrative of foreign occupation. Much debate has taken place about how counter-insurgency campaigns should be conducted, but one thing is certain: to be effective, indigenous troops must be in the lead, supported by foreign forces—not the other way round.

The other great mistake was to underestimate the corrosive effects of Pakistan's playing of a double game, appearing to make itself the West's indispensable ally against jihadist terrorism—while providing the Afghan Taliban with sanctuary, training and money. The delusion that Pakistan was, for all its trickiness, basically "on our side" made it almost impossible to achieve a lasting victory against the Taliban.

Now co-operate

Much now depends on whether Pakistan, Afghanistan and America see the need to improve their fraught triangular relationship. Some change does appear to be taking place. Pakistan's army, which still calls most of the shots in the country, is now led by a general, Raheel Sharif, who some say is a breath of fresh air (last month he was feted during a two-week stay in America). Unlike his predecessors, General Sharif appears to see jihadists, principally in the form of Pakistan's own Taliban, as the country's greatest threat, and has sought the help of the Americans in countering it.

In recent weeks an unprecedented upsurge in operations against militants has taken place on both sides of the Afghanistan-Pakistan border. The Americans have been using drones to hammer Pakistani Taliban sanctuaries in Kunar in Afghanistan, while the Pakistanis have, for the first time, targeted the Haqqani network, responsible for plotting some of the most daring recent attacks on Kabul from its base in Pakistan's North Waziristan tribal area.

For his part, Mr Ghani is trying to acknowledge long-standing Pakistani concerns ignored by Mr Karzai. Confidence-building measures include an agreement to send Afghan officers for training in Pakistan, and a bilateral agreement on managing the border. Mr Ghani has also refused to blame Pakistan for recent militant attacks and is keen to agree on a programme to improve energy and transport links.

Little would boost Afghanistan's prospects more than an end to Pakistan's ultimately self-defeating meddling. It is far too soon to know whether Mr Ghani can succeed in his plan to establish something more constructive in the two countries' relations, above all, persuading Pakistan to help bring the Afghan Taliban to the peace table. Should Mr Ghani be able to achieve that, it would certainly be time to talk about a new era. ■

The Solomon Islands

Mark Three

WELLINGTON

Can the new leader change his spots?

WHEN the Solomon Islands made Manasseh Sogavare prime minister on December 9th, it was amid a heavy security presence of local and Australian police officers. This is the third stint in office for Mr Sogavare, a black belt in karate, and the first two ended badly. He has acquired a reputation as a nationalist. He talks of forging links with China, and also says he wants to work constructively with the Australian-led Regional Assistance Mission to Solomon Islands (RAMSI, consisting of police and troops). That would make a change. His previous term saw the ejection of both an Australian High Commissioner and an Australian police chief.

The general election on November 19th was the first since RAMSI, created in 2003 at a time of civil conflict, was scaled right back last year. Unusually, most incumbent MPs were returned, though an exception was the outgoing prime minister. Also unusually, as many as 32 of the 50 elected MPs contested as independents, most calculating that remaining unaffiliated was the best way to avoid the constraints of a poorly drafted Political Parties Integrity Act, passed this year.

The new law, influenced by legislation in neighbouring Papua New Guinea, was aimed at lessening the influence of "grasshopper" politicians jumping from one side to the other in search of ministerial portfolios. It did not work. As at previous elections, the 2014 contest culminated in a contest between two loosely knit and personality-centred camps at the major hotels in the capital, Honiara. A former governor-general claims to have witnessed Mr Sogavare and his probable deputy, Matthew Wale, offering SI$500,000 ($67,000) to attract three floating MPs. In September an outgoing judge said that Solomon Islands needed an independent anti-corruption commission "more than any country on the planet".

Governments rarely survive a full four-year term. One early indication of fragility in Mr Sogavare's Democratic Coalition for Change was that, ahead of the prime ministerial election, its less reliable MPs were briefly shipped to a resort on the island of Mbike to avoid their being poached by the rival coalition. Gunshots were apparently fired on Mbike in an unsuccessful effort to disable the boat returning the MPs to the main island to vote in the election.

Mr Sogavare first entered parliament in 1997, shortly before five years of civil strife that brought the country close to bankruptcy. Militia groups orchestrated a coup in June 2000 and facilitated Mr Sogavare's first installation as prime minister. He lost the post after the 2001 election. The next prime ministerial election, in 2006, triggered major riots in Honiara, culminating in the burning down of Chinatown and the collapse of an eight-day-old government. In its place, Mr Sogavare again took the top job. He immediately antagonised Australia by appointing a former militant as police chief and by smuggling a Fiji-born lawyer, Julian Moti, wanted in Australia for alleged child-sex offences, into the country to serve as attorney-general.

The events took place a time when Australian influence was in the ascendant. Today RAMSI is a scaled-back operation providing police assistance, run by a relatively junior foreign-service officer. It is far less influential. A full withdrawal is foreseen in 2017. Mr Sogavare, who has mellowed with age, may calculate that he risks more by antagonising Australia—which indirectly sparked instability in his last governing coalition—than he stands to gain with a more co-operative approach. Seeking an exit strategy from Solomon Islands, Australia may also be less perturbed by Mr Sogavare's election than it was in 2006. ■



Education in Indonesia

School's in

JAKARTA

Indonesia's schools are lousy. The new administration wants to fix them

WITH roughly 55m students, 3m teachers and more than 236,000 schools in 500 districts, Indonesia has the world's fourth-largest education system. But the system does not work nearly as well as it should. The country's new president, Joko Widodo, generally known as Jokowi, hopes to change that with help from his new education secretary, Anies Baswedan, a former university president and creator of a programme that sends graduates to teach in remote areas.

Like so much else in the sprawling archipelago, nothing is simple. Three separate ministries are involved. The education ministry oversees state primary, junior and secondary schools; the religious-affairs ministry has control of *madrassas*, or Islamic schools; and the president has now made the ministry for research and technology responsible for universities and polytechnics.

Since the 1970s Indonesia has boosted primary and junior-secondary enrolment rates dramatically. In the past decade it has narrowed the gap in school-completion rates between rich and poor students, and between those from rural and urban areas. Since 2009 it has allocated a fifth of its annual budget to education. Yet gains in education have a lot more scope. Whereas primary-enrolment rates in richer districts are close to 100%, in some poorer districts they remain below 60%. Nor are teachers evenly distributed. Mr Baswedan says that if a school is next to a main road, "I can guarantee it has more teachers than it needs. But if it's two or three kilometres from that road, it won't have enough." Across the system enrolment declines markedly with age. Mr Baswedan says Indonesia has 170,000 primary schools, 40,000 junior-secondary schools and just 26,000 high schools.

Boosting educational quality, particularly relative to Indonesia's neighbours, has been hard. Though average reading and maths scores on standardised PISA tests have improved since 2000, scores in science have declined—and scores in maths and reading have recently been slipping again. In the tests Indonesia markedly lags behind not just rich Singapore, but also Vietnam, whose GDP per capita is three-fifths its own.

The system lets Indonesians down. For every 100 students who enter school, only 25 will come out meeting minimum international standards in literacy and numeracy. In reading, maths and science, the average Indonesian 15-year-old is roughly four years behind the average Singaporean. The education system has also been racked by teacher shortages, and by repeated cheating scandals—including the selling of exam answers. All of these shortcomings matter not just in terms of stunted lives but also for the economy. A recent study from the Boston Consulting Group found that Indonesia faces a dire shortage of managerial talent—an alarming problem for a country with a growing services sector.

In the hope of improving things, a law was introduced in 2005 which required teacher certification. Yet a report this year from the World Bank finds that the certification made no big difference to how much students learned. What matters is how well teachers perform in the classroom, and encouraging students to think critically.

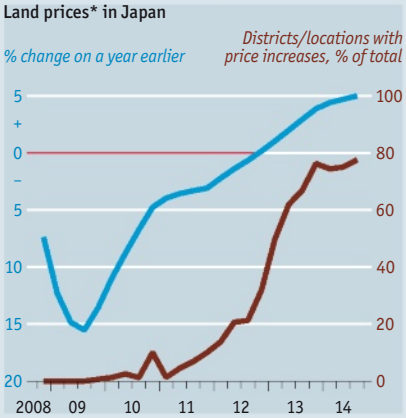
Mr Baswedan wants to start by improving the teachers. He believes they should be evaluated not only on how many hours a week they teach, but on how well their students perform. Almost certainly, teachers need better training. Of more than 400 teacher-training institutes in Indonesia, Mr Baswedan reckons that no more than a tenth are much good. The minister also wants to improve Indonesia's vocational-training institutes, particularly those in agriculture and fisheries, as a way both to boost the country's skilled-manufacturing workforce and to help those in rural areas dependent on farming and the sea.

In the presidential race earlier this year, Jokowi campaigned heavily on education. He wasted no time on one of his campaign promises, launching the "Indonesia Smart Card" in November. It provides school fees and stipends to 24m poor students across Indonesia, guaranteeing them 12 years of free education. But the scheme's value will depend on how well Mr Baswedan can make his longer-term reforms work. Just stuffing more students into bad schools will be of little help to anyone. ■

Japanese property

SINCE the bubble burst in 1990, the Japanese have known only falling or stagnant prices for property. Yet a wave of commercial redevelopment in downtown Tokyo suggests a new mood. And as the chart from CLSA, a stockbroker, suggests, even the regions are pulling out of their long slump. In the third quarter of this year none of the 150 locations in a closely watched land survey showed declining prices. The recovery is evidence that the Bank of Japan's quantitative easing is having an effect, and construction firms report labour shortages. Still, commercial and residential prices remain scarcely higher than they were in 1984.

Land prices* in Japan



Sources: National statistics; CLSA

*Residential and commercial, in 150 locations


HOW FAST CAN YOU
INNOVATE?
HOW
OPEN
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New media

Propaganda 2.0

SHANGHAI

Once caught on the back foot by social media, the Communist Party has upgraded its propaganda for the internet age

IT LOOKS a lot as new media should, with hip click-bait headlines that are ready to be tweeted on microblogs. One headline on the website of a new online publication in Shanghai, the *Paper*, is about an "evil" former general, defrocked for corruption—"so wicked he looked loyal, so fake he looked real". Another headline says that three women have withdrawn an accusation that a teacher raped them during the Cultural Revolution. There is also a story about an internet company being called "mean" for attacking the founder of a Chinese dating app ahead of the app firm's initial public offering.

This is not the standard packaging of Communist Party propaganda. The party is still getting its message across, but in the style of America's *Huffington Post*, a news and opinion site. The *Paper* aims to be accessible to a generation of Chinese that uses smartphones and social media. The *Shanghai Observer*, another new-media publication that is part of the same state-owned group as the *Paper*, made a splash in October by publishing a story about a day in the life of President Xi Jinping—even though it gave little away (he is "at work both day and night", readers were told). Even the *People's Daily*, which is the party's main mouthpiece and is renowned for the turgidity of its print edition, now publishes news on WeChat, a hugely popular messaging service used on smartphones, about the doings of "Uncle Xi" and his wife Peng Liyuan, or "Aunt Peng".

The party's message-managers, like stodgy old-media titans in the West, are getting hip to the internet. It is a striking change. Although propaganda officials have long discussed the need to steer online content along the party's desired path, they have usually tried to achieve this by censoring, admonishing and punishing. Censors have often been slow to respond to new technologies. Just as officials were getting microblogs under some control in 2013, enterprising journalists and bloggers leapt to WeChat. It was not until early this year that censors began a concerted effort to shut down WeChat accounts that were spreading uncensored news. Lu Wei, who is in charge of regulating the internet in China, has said harmful material needs to be "cleansed" from the internet and replaced with wholesome content.

The *Paper* is an ambitious effort to achieve this. It is an offshoot of the *Oriental Morning Post* in Shanghai, a print newspaper that is losing circulation and advertising revenue, and barely turns a profit. When Han Zheng, Shanghai's party chief, urged the newspaper in 2013 to produce a new digital platform, its editors were thinking the same. With funding of 100m yuan ($16m) from the *Post*'s state-owned parent, the Shanghai United Media Group, the *Paper* was formally launched on July 22nd. Its mission was clear from the beginning. Just before the launch it hosted a visit by Mr Lu, the regulator: a signal of his support.

Like other state-owned newspapers, the *Paper* employs many journalists who want a go at the real thing, and occasionally give it a try. Early on it broke stories about apparent wrongful convictions and abuses of power in other provinces (a lower-risk strategy than complaining about similar problems in its own city, Shanghai). One report in July, about police forcing witnesses to lie in a murder case in the eastern province of Anhui, prompted court officials to make a statement within hours that the matter was being investigated.

But sources say senior officials in Anhui complained to propaganda authorities in Shanghai and to their superiors in Beijing. Exposés like these stopped appearing. The *Paper*, like other online media, has to work under the same constraints as print publications. Journalists must pledge not to leak news that is not authorised for release. A famous investigative journalist who exposed a corrupt official on his microblog account in 2012 has now left journalism, disillusioned. (On December 9th the official, Liu Tienan, was sentenced to life in prison for taking bribes worth nearly $6m.)

The *Paper* still makes a big deal of its anti-corruption coverage. A special category on its front page is called "Notes on fighting tigers", a reference to the high-ranking officials or "tigers" that Mr Xi has spoken of catching (see Banyan). But like other media in China, the *Paper* does not break big corruption cases before news of them is officially released. "We are very cautious," says one of its editors.

By presenting news in a livelier and more accessible fashion, the *Paper* and other new media are trying to broaden the party's reach: unconventional language like "Xi Dada" (Uncle Xi) appeals to younger readers who abhor the often soporific print media. On December 4th, China's ▸▸

The Economist

SPECIAL REPORT
LUXURY
DECEMBER 13TH 2014



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Exclusively for everybody

The modern luxury industry rests on a paradox—but is thriving nonetheless, says Brooke Unger

AT THE TRANG TIEN PLAZA shopping mall in Hanoi, Vietnam's capital, on some evenings a curious spectacle unfolds. Couples in wedding finery pose for photographs in front of illuminated shop windows, with Salvatore Ferragamo, Louis Vuitton and Gucci offering the sort of backdrop for romance more usually provided by the sea or the mountains. The women are not wearing Ferragamo's Vara pumps, with their distinctive bows, or toting Vuitton's subtly monogrammed handbags. They cannot afford them. Tran Van Cuon, who assembles mobile phones at a Samsung factory, posed with his fiancée in a brown suit and bow tie that cost him the equivalent of $150. Some day he hopes to become a customer in the mall. Until then, he will proudly display the photos in his home.



To stumble across an outpost of European luxury in a relatively poor and nominally socialist country is not all that surprising. Luxuries such as silk have travelled long distances for many centuries, and even modern luxury-goods makers have been pursuing wealth in new places for more than a century. Georges Vuitton, son of Louis, the inventor of the world's most famous luggage, showed off the company's flat-topped trunks (better for stacking than traditional round-topped ones) at the Chicago World's Fair in 1893. The oil-rich Middle East has been a magnet for expensive foreign trinkets since the 1960s. The Japanese became insatiable consumers in the 1970s. Today, two in five Japanese are thought to own a Vuitton product. And now it is China's turn to lap up luxury.

As luxury-goods sales have expanded geographically, they have also spread across the social scale. When Coco Chanel created her No. 5 perfume in the 1920s she reserved it for her best couture clients, but in the following decade she sold it in smaller bottles so that more women could afford it. Cartier's "Les Must" jewellery in the 1970s put the brand within reach of consumers who could only yearn for Panthère necklaces and Tank watches. Many other brands followed Cartier's *sortie du temple* (descent from the temple), seeking to broaden their appeal while retaining their cachet. Not all succeeded.

Over the past 20 years the number of luxury-goods consumers worldwide has more than trebled to 330m, according to Bain & Company, a consulting firm. Their spending on expensive jewellery, watches, clothing, handbags and so on has risen at double the rate of global GDP. Most of these new buyers are not the very rich but the merely prosperous, with incomes of up to €150,000 ($188,000). Shares of listed luxury companies have far outperformed those of other companies (see chart, next page).

Consumers' rush to quality has created billionaires at a rate that Silicon Valley might envy, especially among the main shareholders of luxury conglomerates that have gathered together many of the best-known

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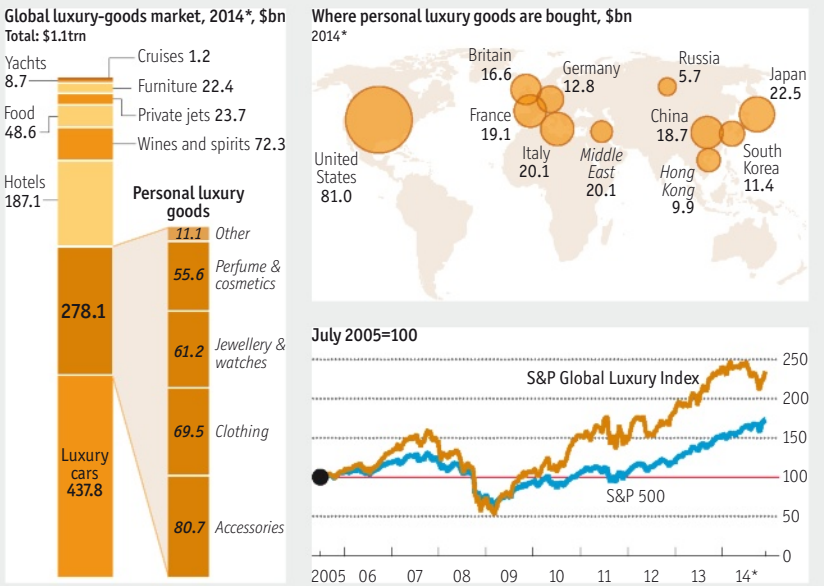
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A list of sources is at **Economist.com/specialreports**

An audio interview with the author is at **Economist.com/audiovideo/specialreports**

A world of indulgence



Sources: Bain/Altagamma; Bloomberg *Forecast

brands. They include Bernard Arnault, a French tycoon who controls LVMH, owner of Louis Vuitton, Moët & Chandon champagne and a host of other brands, and his rival François-Henri Pinault, whose Kering group owns Gucci, a big Italian leather-goods maker. Nick Hayek's Swatch Group and Johann Rupert's Richemont (Cartier's owner) are powerhouses in watches and jewellery. Among the owners who have made fortunes from selling stakes to investors in the past few years are Brunello Cucinelli, whose eponymous company makes casual-chic clothing at serious prices, and Remo Ruffini, a fellow Italian who floated Moncler, a maker of down jackets.

Personal luxury goods are just one small corner of this empire of opulence. Upmarket options can be found in industries from health care to banking, though most analysts leave such things out of their reckoning. Using consumers' own perception of what constitutes luxury goods and services, the Boston Consulting Group reckons that $1.8 trillion was spent on such items in 2012. The biggest category is travel, followed by cars and then personal luxury goods. Bain comes up with a smaller sum for a similar spread of sectors (see chart). But luxury's boundaries are fuzzy and hotly disputed.

This special report will concentrate on personal goods, which face the tricky task of trying to achieve global scale while maintaining the artisan roots that give them rarity appeal. Ultra-expensive cars will make only a brief appearance, and yachts will just sail by on the horizon: globally, only 14,000 people are able to afford a really big one. But the report will include such fast-growing "experiential" sectors as hotels and wine, which are growing faster than things to buy and own.

To view the world through the lens of luxury is to see it subtly altered. Some of the normal rules do not apply to luxury-goods makers, even though in many ways they are similar to other consumer-goods companies. The cost of production is not usually a prime concern and capital investment is generally modest, except for watches. A really prestigious item can be a "Veblen good", named after an American economist born in the mid-19th century who noticed that demand for some goods actually rises as they get more expensive because they confer yet more status. And the margins even on lesser luxury goods are much better than on mass-market items.

Luxury companies like to set their own agenda. Their creative directors oversee both the development of new products and the way they are presented in magazines, shop windows and online. "We are not going to let people influence the vision," says Patrick Albaladejo, deputy managing director of Hermès, a French luxury house so august it claims not to have a marketing department.

Luxury companies often get the most attention for the things they sell least of. Karl Lagerfeld, Chanel's creative director, made headlines this year by sending his models down a catwalk decked out as a grocery shop. But "the bread and butter of the company are chemicals," explains Armando Branchini of the Altagamma Foundation, which represents Italian luxury firms. Luxury perfumes and cosmetics are thought to account for over half of Chanel's business.

Diageo, a big drinks company, has a "Reserve" division that gives special attention to its priciest tipples, such as Johnnie Walker Blue Label whisky. They are marketed through the patient cultivation of the coolest bars and influential "advocates". "You need to be a black belt in relationships when it's about luxury," says James Thompson, who runs the division.

Luxury's lens does odd things to the map as well. Europe is still the pre-eminent maker; its brands account for 70% of the world's luxury consumption. Germany matters in cars and yachts, but the real powerhouse is Italy, which serves as the workshop for French fashion and leather goods as well as its own. Luxury is "one of the few industries where Europe has a sustainable competitive advantage", says Michael Ward, managing director of Harrods, a posh London department store. America is both an underexploited market, given its wealth, and a base for brash competitors such as Coach, Michael Kors and Kate Spade, which are challenging established European brands with a more affordable take on luxury. China, already a voracious consumer, is just beginning to stir as an exporter.

The pope doesn't wear Prada

Of late, though, the champagne has gone a bit flat. The war in Ukraine and the sanctions imposed on Russia in response have put off rich citizens of that country, among the giddiest new consumers. The Japanese went on a spree early this year ahead of a rise in value-added tax, then stopped spending. The Ebola epidemic in Africa and pro-democracy protests in Hong Kong, where Chinese mainlanders do much of their shopping, have unnerved consumers. Most important, slower economic growth and the anti-corruption campaign mounted by Xi Jinping, China's leader, have dampened the spirits of Chinese shoppers, who now account for nearly a third of the global demand for personal luxury goods. The share prices of recently listed luxury companies have fallen by a quarter this year. After two decades when annual growth averaged nearly 6%, the rate this year will be just 2%, predict Bain and Altagamma.

These passing crises come on top of more profound changes. One of them is a shift from "having" to "being", espe-

cially in rich countries, where the well-off are becoming less keen on owning and more interested in experiencing things. Consumers in China are turning from monogrammed showiness to subtler elegance. Younger people everywhere have their own ideas about how to consume luxury, helped by social media and e-commerce. Inequality is a growing concern from Berlin to Beijing. Last year a pope whose red shoes were widely (but wrongly) thought to have been made by Prada, an Italian fashion house, gave way to one who shuns the Apostolic Palace for a guesthouse. That captures the mood and contributes to it.

Sobriety has bypassed some sectors, including fine wine and expensive cars. Yacht sales, too, are buoyant again after a period in the doldrums in the late 2000s, and today's yachtsmen often add a helicopter or two to their order. But mostly substance is winning over style.

In some ways, today's preoccupation with sustainability plays into the hands of luxury-goods makers. With their ample margins, they can afford to reduce the environmental damage they cause. "Luxury can show the path that answers the major issues of our century," argues Marie-Claire Daveu, Kering's sustainability chief. By and large, makers of luxury goods employ European workers rather than sweatshop serfs in Bangladesh. The key trend now, says Diageo's Mr Thompson, is "away from show for its own sake towards knowledge, appreciation, craft and heritage—something with a story." ■

Definitions

A rose by many names

Why luxury is so hard to pin down

WHAT EXACTLY IS luxury? The concept is both slippery and divisive, not least because so many purveyors wish to lay claim to it. It is adjacent to excess, enjoyment of it may bespeak shallowness, and those who possess it are often undeserving. Luxury makers need to dissipate such doubts.

As luxury has become more widespread, defining it has got harder. The language associated with it is replete with qualifiers. It can be "authentic", "absolute", "aspirational" or "affordable". Jean Cassegrain, the chief executive of Longchamp, a leather-goods and clothing company, positions his "optimistic luxury" brand between affordable Americans such as Coach and the more upmarket Louis Vuitton. Parts of this universe, like *haute couture* and *haute horlogerie* (the watchmaking version), have organisations to back them up, but they leave a lot out, such as ready-to-wear clothing. Altagamma, which produces annual re- ▸▸

Saintly or sinful?

Appreciation of luxury goes in circles

LUXURY HAS A long pedigree. Homer's warriors slaughtered each other for booty as much as for glory. Priam, the Trojan king, assembled "twelve robes, handsome, rich brocades" and "a magnificent cup the Thracians gave him once" as part of a ransom for the return of the body of his fallen son, Hector. More often, though, luxury has been portrayed as a menace to martial spirit and moral fibre. Christians associated luxury with sinful self-indulgence. In the rose window of Notre Dame, luxury is represented "as a woman titivating herself in front of a mirror", says Christopher Berry in his study "The Idea of Luxury", published in 1994.

Sumptuary laws were devised over the centuries to discourage dissipation, curb imports of expensive fripperies and (often hypocritically) preserve distinctions of rank. Those of the Aztecs were particularly tough: *macehualtin*—members of the labouring class—who displayed finery and precious objects could be put to death. The Venetian republic had three *provveditori delle pompe*, luxury police who ensured that sumptuary strictures were observed. Rules in the Tokugawa (Edo) period in Japan specified what sort of toys parents could give their children.

Attitudes changed with the Enlightenment and the advent of liberal economics. In the 1600s British merchants rejected "bullionist" arguments that the import of luxury goods weakened the economy by depleting gold reserves. A century later Adam Smith and David Hume portrayed luxury as a spur to industry and to social co-operation. It is "peculiar" to "polished and…luxurious ages" that "industry, knowledge and humanity are linked together by an indissoluble chain," wrote Hume in his essay, "Of Refinement in the Arts" (originally called "Of Luxury"). Samuel Johnson introduced a feelgood factor to the enjoyment of luxury: "You cannot spend money in luxury without doing good to the poor." For these thinkers, luxury was all tied up with commerce, liberty, peace and social mobility.



Sun King and supermodel

At the time they were writing, the French had already laid the groundwork for the modern luxury industry. Jean-Baptiste Colbert, Louis XIV's finance minister, taxed imports, offered subsidies and enforced quality standards to promote French production of the sumptuous textiles and lace that were *de rigueur* at the Sun King's court; then he pushed exports. "Fashion is to France what the gold mines of Peru are to Spain," he proclaimed. But Elisabeth Ponsolle des Portes, boss of the Comité Colbert, France's club of luxury producers, says the country's luxury know-how goes back to the troubadours of the 12th century.

Thorstein Veblen, the economist who gave his name to the sort of goods that become more desirable as their price rises, had political grounds for sneering. Luxury is a form of waste that arose to confer status on an essentially useless class, he argued in "The Theory of the Leisure Class", published in 1899. "Conspicuous consumption of valuable goods is a means of reputability to the gentleman of leisure." Both Veblen's and Hume's ideas remain potent.

ports on luxury along with Bain, applies a simple price standard: a luxury handbag costs €850 or more.

But that leaves the question of why you might want to spend that kind of money. Brunello Cucinelli, who turned his idea of enlivening cashmere with bright colours into a clothing business with revenues of €322m and a stockmarket capitalisation of around €1 billion, provides one answer. He runs his company from Solomeo, a timeless village perched on an Umbrian hilltop. There, Mr Cucinelli has set up schools dedicated to crafts such as tailoring and gardening and a "neo-humanist academy".

Mr Cucinelli considers his products to be "absolute luxury", and not many would disagree. A men's cardigan knitted from Mongolian cashmere can cost more than €1,600, not least because it is made in his hilltop Utopia. Italian manufacture is not merely an assurance of quality; without it the business would lose its point, Mr Cucinelli suggests. Europe is of "inestimable value" to the company and, he believes, to its customers. He adds to the aura by insisting that his workers take a 90-minute lunch break. With Mr Cucinelli selling it, that cardigan will feel as good to the soul as it does to the touch.

All luxury makers like to tell some version of this story, and some have longer histories. Breguet, part of Switzerland's Swatch Group since 1999, boasts that Napoleon was one of the "most faithful clients" for its watches. Karl Lagerfeld, a pony-tailed German fashion designer, is the spiritual son of Coco Chanel. Burberry, which was founded in 1856, calls itself an "old new company". It is "the combination of timelessness and modernity [that] makes these brands successful", says Mr Arnault of LVMH.

Tell me a story

Craft and a sense of place are almost always part of the narrative. Hermès attractively defines luxury as "that which can be repaired". The company keeps expatriate repairers in centres such as New York, Shanghai and Tokyo. Vertu, a company that makes handsets costing ten times as much as an iPhone, justifies the price by pointing out they are "handmade in England".

For some of the most discerning customers, the products of pretty much any company you have ever heard of fall short of real luxury, which is defined by extreme rarity. Breguet produces perhaps 15,000 watches a year. Greubel Forsey makes a mere 100, one for each employee. Rolls-Royce makes 4,000 cars a year, many of them to order. But they are commonplace compared with the 38 that will roll out of the "atelier" of Pagani, an Italian manufacturer, this year. The quality of such "meta-luxury" objects may be no better than those produced by slightly less exclusive marques, but they come over as more intimate and closer to their creators.

At the other end of the scale, companies bristle when their credentials are questioned because their prices are less exalted or they manufacture in China. Coach, which mainly sells leather goods, uses the same materials as European brands, but its soul is in New York, its creative hub. Manufacture is a collaboration between designers there and craftsmen in China, says Coach's boss, Victor Luis. He thinks the idea that luxury and approachability don't go together is "almost offensive". Similarly, Longchamp's Mr Cassegrain argues that it is "almost racist to characterise made in China as bad".

The broad conclusion from all this may be that luxury is in the eye of the beholder. To qualify, it seems to demand a stretch from those who would claim it. For the rich, that exertion may take the form not of scattering money but of spending time or learning about an object or an experience. The acquisition of luxury is both an attempt at transcendence and an act of appropriation, like the picking of the apple in the garden of Eden. Perhaps that was mankind's first luxury good. ■

The business case

Beauty and the beasts

Think global, act artisan

YOU MIGHT EXPECT the headquarters of LVMH on the Avenue Montaigne in Paris to show off its full range of brands, from Sephora (cosmetics) to Moët & Chandon (champagne). They do get some play in a small museum housed in the lobby. But up on the ninth floor, where Mr Arnault presides over his luxury empire, there is tribute to just one, Louis Vuitton. Two paintings of the LV monogram by Takashi Murakami hang opposite the reception desk, and a little pyramid of handbags sits nearby.

The decor tells you something about Mr Arnault's group. Louis Vuitton is the company's biggest brand by far, accounting for about a third of its sales and nearly half its profit. A Louis Vuitton shop window is the first close encounter with luxury for many people, and the brand often pioneers new markets. Its first shop in China opened in 1992. It is "the number one brand in the world and will stay so", Mr Arnault declares.

Critics sniff that canvas creations like the Neverfull tote, spangled with logos and sold by the hundreds of thousands, are commodities, not luxury. "It's difficult to say you're a luxury brand if everyone on the planet can buy your product," says Barbara Coignet of 1.618, an organisation that promotes luxury with an environmental and social conscience. Misgivings about excessive scale extend to the publicly listed companies that own the brands, such as LVMH, Kering and Swatch. "Real luxury is slowly fading away because of the big luxury groups," complained Lapo Elkann, an Italian entrepreneur, at a recent *Financial Times* conference on luxury. "They standardise the aesthetics of brands to generate more profits for shareholders."

The holding-company model is not the only successful one. Chanel belongs to the secretive Wertheimer family; Hermès is publicly traded but managed by its founding family. Both have largely avoided the criticism that bedevils Big Luxury. Italy's lux-

Biggest and best 1

European luxury firms

	Selected brands	Main products	Total sales 2013, $bn
LVMH	Louis Vuitton Moët & Chandon Bulgari Guerlain	Leather goods and fashion Champagne Jewellery Perfumes	36.38
RICHEMONT	Cartier Van Cleef & Arpels Net-A-Porter Piaget	Watches and jewellery Jewellery Online fashion Watches and jewellery	13.29
KERING	Gucci Boucheron Bottega Veneta Yves Saint Laurent	Leather goods and fashion Jewellery Leather goods and fashion Fashion	12.17*
swatch	Breguet Blancpain Omega Harry Winston	Watches Watches Watches Watches and jewellery	8.50
HERMÈS PARIS		Leather goods, accessories, fashion and jewellery	4.69
PRADA		Leather goods and fashion	4.48†
BURBERRY		Fashion and accessories	3.65‡

*67% of sales from luxury †Year to end Jan 2014 ‡Year to end March 2014

Sources: Company reports; *The Economist*



ury houses are mostly stand-alone companies, controlled by their founding families even when they are publicly traded and professionally managed. Young firms often try to keep their distance from the big groups, either turning to private-equity investors or staying independent. British brands are "very reluctant to take outside investment", says Michelle Emmerson, chief executive of Walpole, an association of British luxury firms.

The soft-spoken Mr Arnault has become France's richest man by overcoming such resistance. His career in luxury began in 1984 when he picked up Dior, a venerable *haute couture* house, in the bankruptcy sale of an industrial group. A few years later he wrested control of Louis Vuitton from Henry Recamier, who had married into the founding family and expanded the brand's two shops into a network of 125. Other *maisons*, such as Céline and Givenchy, followed into Mr Arnault's clutches. With Dior and Louis Vuitton he took production and distribution back from licence- and franchise-holders to boost their cachet.

In 1999 he lost a battle for control of Gucci to his arch-rival, Mr Pinault. Mr Arnault's stealthy acquisition of a stake in Hermès, revealed in 2010, appalled conservative Parisians. His interest was purely financial, he insisted; in September he agreed to distribute the shares to LVMH's investors, giving them (and himself) a handsome profit. But his image as a monogrammed Machiavelli persists. "Arnault never met a brand he liked that he didn't want to make bigger," comments Hélène Le Blanc, a luxury-industry consultant.

There are good reasons for bigness, both for brands and for the companies that own them. Listed European luxury groups have expanded their global market share from 39% to 42% over the past five years whereas independents' share has dropped from 50% to 43%. Luxury, ironically, benefits from economies of scale. The Swatch Group dominates Swiss watchmaking, with a 45% market share, in part because the industry involves large investments and high fixed costs. Cosmetics are the most high-tech part of luxury and their distribution is more akin to that of detergent than of jewellery, so most brands license that side of their business to specialists such as L'Oréal and Procter & Gamble.

There are good reasons for bigness, both for brands and for the companies that own them

In "soft luxury" categories like handbags and clothes, where production is low-tech and costs are variable, the benefits of scale are in retailing and marketing. Key money paid up front to open a shop can cost up to £10m ($16m) on London's Bond Street; the cost of fitting it out comes on top of that. Annual rent can be £1m. A big brand, or one belonging to a strong group, can wait to break even. A small one risks bankruptcy if sales sag, says Mr Branchini of Altagamma. To secure prime space in shopping malls, it helps to belong to a holding-company convoy led by a large brand.

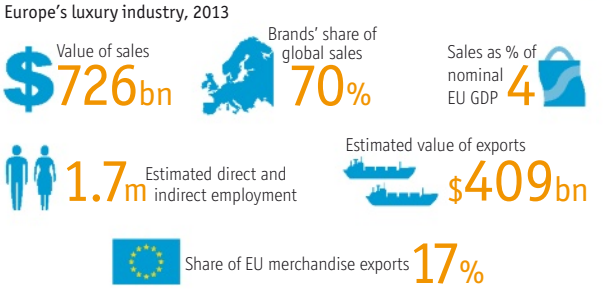
Perhaps equally important is the big groups' clout with publishers of glossy magazines and "key opinion leaders" whose fashion-packed blogs, videos and Instagram streams reach millions of followers. Media spending is correlated with traffic in stores, so large brands can open bigger and better ones. Luca Solca of Exane BNP Paribas, an investment bank, has dubbed this the "mega-brand virtuous cycle". Most big companies have become retailers in their own right. This gives them better margins, along with control over the presentation of their wares and markdowns on unsold stock. By this measure, Louis Vuitton is ahead of the others: it sells only through its own network of 462 points of sale.

In theory at least, the groups help the smaller brands they acquire to grow faster. Under Kering's tutelage Bottega Veneta, an Italian leather-goods maker renowned for the woven *intrecciato* of its handbags and shoes, has gone from being a niche brand to revenues of more than €1 billion. Kering encouraged Christopher Kane, a British fashion designer who is part of its stable, to open his own stores, and guided Italy's Brioni to move out of women's wear and into men's accessories and shoes. Small brands also benefit from centralising the boring bits of the business, such as logistics. The brightest prospects in the industry are for "small brands in big conglomerates", says Julian Easthope of Barclays Capital, an investment bank.

Mr Arnault thinks LVMH's main contribution to its *maisons* is its ability to recruit talented managers. In stand-alone companies "a bright person is rapidly blocked," he says. At LVMH he or

Serious money 2

Europe's luxury industry, 2013



Source: Frontier Economics, ECCIA

she can move from fashion to jewellery to wine. The groups are looking for productively split personalities, with "the capacity to be inspired by creativity in a rational way", as Mr Arnault puts it. Kering is on the lookout for similar qualities. "When the fashion show is over, the business side takes over," says Jean-François Palus, its managing director.

Occasionally this gets out of hand. The point of the big groups is to foster profitable growth, but too much of it or the wrong sort can tarnish a luxury brand. In 2004 Gucci set itself a goal of doubling its sales within eight years. To achieve that, the company produced many more canvas double-G-dappled handbags than was healthy for the brand.

The trick is to polish a brand to a high sheen and then to disseminate the glow through the full product range without letting it dull. Hermès and Chanel have lately been better at this than the big groups' main brands. That is not because they are small: Hermès has 315 stores and €3.8 billion in revenue, and Chanel's sales are three-quarters the size of Louis Vuitton's. But each has its own knack for teaming exclusivity with accessibility.

Managing the mystique

Hermès starves the market. Customers have to wait six months or more to buy its most famous products, its Kelly and Birkin handbags, each one handmade by a single craftsman. Although Hermès makes an estimated 70,000 Birkins a year, prices on the secondary market can be 50% above the retail price. Hermès's growth is limited by the scarcity of high-quality raw materials and of craftsmen, who take two years to train up, points out Mr Albaladejo. Hermès sells plenty of less expensive products, including scarves, wallets and towels. But €500 will merely buy you an expensive scarf, not a cheap handbag.

Chanel will not sell a handbag for much less than €2,000 but moves millions of €30 lipsticks. Few brands stretch as gracefully from mass production to *haute couture*. Many of its cosmetics are made by Intercos, a contract manufacturer, but the company also provides a haven for endangered crafts still vital to the most exalted tiers of fashion. Paraffection, a subsidiary, houses century-old firms that specialise in things like embroidery and making artificial flowers, both for Chanel and other brands. The husbandry practised by Hermès and Chanel contrasts with the approach taken by Italy's Giorgio Armani, whose half-dozen sub-brands each sell similar products at different prices.

LVMH and Kering have both been burnishing their biggest brands lately. Since a strategic review in 2010, Gucci has reduced sales of its cheapest handbags from a third of the total to less than 5%. Mr Arnault, for his part, announced an "adjustment to the strategy" last year which involved a big reduction in new store openings and a greater emphasis on leather products. Customer service was also beefed up. These moves to higher ground have slowed the big brands' growth and conceded territory to lower-priced competitors. "When Vuitton and Gucci move upmarket, that makes more space for us," says Longchamp's Mr Cassegrain.

But fast-growing smaller brands seem unlikely to eclipse Louis Vuitton. "People said in 1989 that Louis Vuitton was already too big. Now it's ten times the size," says Mr Arnault. He is as ambitious for it as ever. A dazzling new arts centre in Paris designed by Frank Gehry, called the Fondation Louis Vuitton, opened amid a flurry of publicity in October. In a riposte to those who see the LV monogram as a vulgar status-seeking symbol, the company commissioned six "iconoclasts", including Mr Gehry, to come up with playful new designs for it. Mr Lagerfeld (who is creative director of LVMH's Fendi label as well as of Chanel) cheekily devised a punchbag with matching gloves and a trunk to house them. The designs are now on display at most of Louis Vuitton's flagship stores, including the one in Shanghai. ■

China

Beyond bling

Tastes are changing, but appetites remain keen

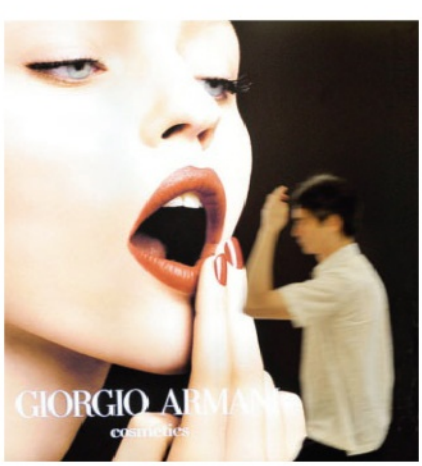
IF LUXURY MEANS Bond Street or the Place Vendôme for you, Hong Kong comes as a shock. Billboards touting Swiss watches and Italian shoes dominate the skyline. At shopping centres, high-wattage façades compete for space. Louis Vuitton's lights square up against Burberry's cinema screens.

This Vegas-like glitter reflects the novelty of luxury in China, and the country's new importance to luxury. Today nearly one-third of all personal luxury goods sold worldwide are bought by Chinese consumers. Their spending is divided more or less equally among the mainland, the Chinese-speaking territories of Hong Kong, Macau and Taiwan, and the rest of the world. Mainlanders become familiar with the brands through marketing and shopping centres at home. When they visit Hong Kong they are "on a mission", says Pascal Perrier, chief of Burberry's Asian operations. The gaudy signage helps guide them to shopping destinations they have already picked out.

Chinese shoppers came to the rescue when the financial crisis in 2008 cast a pall over luxury. Since then 70-80% of global growth in the sector has come from China, according to Barclays Capital. Once-fading European brands, such as Britain's Aquascutum, which makes traditional clothing, have sought second lives there. Others, like Lancôme, a cosmetics-maker, are presenting themselves as more luxurious there than they are seen at home. "Now our culture is so imbued and involved in good and bad ways by luxury penetration," says Yi Zhou, an artist who has collaborated with luxury brands. "Instead of the theatre we go to store openings…I feel like I live in an airport."

The rush to China intensified after the 2008 Beijing Olympics, with luxury brands swarming into shopping malls as fast as they could be built. It was a "game of space invaders", says Erwan Rambourg, a banker and author of a new book, "The Bling Dynasty". President Xi Jinping's crackdown on corruption, along with slower economic growth, has now changed the mood.

His anti-extravagance measures amount to a mini cultural revolution. Chinese newspapers report falling sales of such delicacies as hairy crab and sea cucumber as banqueting halls go ▸▸



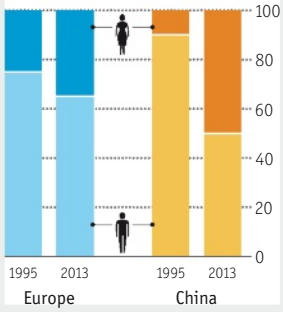
Nearly one-third of all personal luxury goods sold worldwide are bought by Chinese consumers

Hey, big spender 3

China's personal-luxury market
2013 total: $18.9bn



Personal-luxury spending by sex
% of total



Source: Bain

quiet. Hotels have asked to have stars knocked off their ratings. One airline, China Southern, rebranded its first-class cabin "business class". Paul & Shark, an upmarket Italian clothing brand, used to take corporate orders for 300 polo shirts at more than 3,000 yuan ($490) apiece, to hand over as gifts. Those days are over, says Alice Wong of ImagineX, which operates the company's shops in China.

European brands that catered to pre-Xi giving and guzzling suffered most. In the first nine months of this year exports to China of Swiss watches, which had become a common ornament on the wrists of public officials, were more than 10% down on the same period in 2012. Sales at Rémy Martin, maker of $2,500-a-bottle Louis XIII cognac, plunged 13.4% in the half-year to September 30th. A slower economy has also reduced the growth in the number of newly affluent families, defined as those having just entered the income bracket of €15,000-75,000 a year. It dropped from 6m in 2010 to 4m in 2012.

The luxury market in mainland China, worth $18.9 billion in 2013 (see chart 3), will shrink for the first time this year, predicts Bain. Still, few brands are thinking of giving up. Mr Arnault says it will remain "one of the most promising markets". But it is becoming more complex, more sophisticated, more international and harder to navigate.

Luxury in China began as a male-oriented pursuit, centred on liquor and wristwatches, but is now becoming more feminised, with handbags, shoes and fashion featuring strongly. Experienced consumers are graduating from bling to sophistication with a speed that Mr Arnault describes as "spectacular". But many Chinese idiosyncrasies will persist, including a penchant for shopping abroad and a big discount market that mingles the real with the fake. Luxury brands have to work out how to cover that range.

One promising group of consumers is the offspring of the one-child-policy era, born in the 1980s and 1990s. They are the single focus of attention for their parents and often two sets of grandparents, giving them access to plenty of cash. Another, potentially huge, market is women, whose "vision and status" was changed by Mao Zedong, says Pierre Denis, chief executive of Jimmy Choo, whose stilettos featured in "Sex and the City". Their new self-confidence translates into sales. And even if growth rates are slowing, there will still be more people with more disposable income. Spending on luxury by the rich (households earning at least €75,000) will nearly quadruple between 2012 to 2020, according to Exane BNP Paribas. But it will be dwarfed by the spending power of merely affluent households, which will double to €90 billion and account for 70% of luxury consumption.

Veteran consumers are moving from very famous brands to somewhat less familiar ones. In a survey of consumers in Beijing and Shanghai carried out by Bain last year, Hermès and Prada were found to have displaced Louis Vuitton and Gucci among the three brands that consumers wanted most, and Burberry and Bottega Veneta had entered the list of the most popular ten. As shoppers become more price-conscious, affordable American brands are making inroads. Coach is advancing into second-tier cities and Kate Spade is just getting started in China, a "very big opportunity", says its chief executive, Craig Leavitt. A fad for all things South Korean has also boosted brands such as Sulwhasoo

The clamour for glamour

China is not the only growth story

"FOR NIGERIANS," SAYS John Obayuwana, "the bigger the logo the better." Mr Obayuwana owns Polo Luxury Group, a chain of shops in Nigeria and Ghana selling things like Swiss watches and Montblanc pens. His rich initial customers have been joined by middle-class consumers with a penchant for European luxury. Nigeria is a difficult market, with shoddy infrastructure and few decent shopping malls. So for the foreseeable future Nigerians will do most of their upmarket shopping at emporia like Harrods in London, where they outspend Americans. But as emerging countries get more prosperous, they are becoming increasingly important to luxury-goods makers.

The 15 fastest-growing emerging markets will provide 90% of the growth in consumption of luxury beauty products and women's wear over the next ten years, says Nathalie Remy of McKinsey, a consultancy. China will account for nearly half that growth, which leaves plenty of opportunities in other developing countries. Whereas makers of packaged consumer goods must fan out across entire countries to reach their markets, luxury makers can concentrate on the main cities.

South-East Asia is "a half-China", says Mr Cassegrain of Longchamp. For now, the inventor of the folding Le Pliage nylon tote does only 6% of its business in the region, but that is two-and-a-half times as much as three years ago. Half of Latin America's luxury sales are in Mexico, in part because that country has slashed duties on imports. Brazilians, who face higher tariffs, tend to shop in Miami.

Oddly, for all its wealth, even America is a developing market of sorts for European luxury-goods makers. It has 30% of the world's high-net-worth individuals (people with more than $1m in liquid assets) and nearly a quarter of global GDP, but consumes less than a fifth of the world's personal luxury goods, notes Olivier Abtan of the Boston Consulting Group; and its consumers are younger than those in Europe or Japan. North America is "probably the safest growth driver we can imagine", says Michele Norsa, chief executive of Salvatore Ferragamo.

For small luxury houses, it may be better to pursue a modest share of a slow-growing mature market than to leap into fast-growing emerging economies, says Ms Emmerson of Walpole British Luxury. Lots of Europeans own luxury goods but buy them infrequently. Mesmerised by the dynamism of developing markets, luxury brands are turning Europeans off by pushing up prices and churning out stylish but ephemeral designs, argues Ms Remy. Europe could be "a land of opportunity" if only luxury-goods makers would seize it.

(which makes cosmetics).

The shift to niche brands should not be exaggerated. "Only really fashionable girls buy Céline and Fendi bags," says Cheng Yan, whose Shiliupo Report (the name means something like very gossipy grandma) has 160,000 subscribers on WeChat, a social-network and messaging service. First handbags are "always with a logo", and Louis Vuitton's remain the most popular.

"Luxury brands had a very easy ride" in China, says Emmanuel Hemmerle, a headhunter based in Shanghai. "Now they have to think." The first generation of luxury-goods managers spent their time negotiating with landlords, who decided which brands would occupy their shopping malls (and gave preference to Vuitton, Gucci and Chanel). The new climate demands executives who are good at visual merchandising and customer service. It is telling that the newish chief of Louis Vuitton in China, Christophe Sadones, has come from the hotel business.

Why pay more?

However tempting the displays at Beijing's Shin Kong Place and Shanghai's Plaza 66, Chinese consumers will do most of their shopping elsewhere. Luxury-goods prices in China are 40-50% higher than in Europe, in part because of high import duties and consumption taxes. The Chinese are keen bargain-hunters, so they buy abroad or on the internet.

Last year the Chinese took some 100m trips outside the mainland, many of them to such destinations as Hong Kong's Harbour City, Manhattan's Fifth Avenue and Milan's Via Monte Napoleone, armed with detailed shopping lists. In Paris, buses bearing Chinese tourists deposit them at Galeries Lafayette, a department store. Two-thirds of Chinese visitors to Britain in 2011 went to Bicester Village, an upmarket discount mall near Oxford. Sightseeing is a secondary concern. Mainlanders in Hong Kong spend 73% of their budget on shopping, says Mr Rambourg.

This is bound to increase. According to Mr Rambourg, currently just 4% of Chinese hold passports, compared with roughly 30% of Americans and 70% of Britons, but numbers are growing by 10m-15m a year. A relaxation of visa rules is likely to lure more Chinese to Britain and America. Swiss watchmakers were puzzled to see a spike in American sales in August, normally a slow time of year; then they realised the buyers were wealthy Chinese dropping off their children at university. Even at home the Chinese shop on the move. Just half of all sales in Shanghai are to local residents.

Stay-at-home bargain-hunters have a plethora of online choices, some of them provided by websites that co-operate with the brands. Mei.com holds "flash sales" of unsold stock; The Outnet, the discount arm of Britain's Net-A-Porter fashion website, serves as an online outlet mall. But most of them come through the murky channel known as *daigou*, which offers genuine products at big discounts to Chinese list prices. The stock may come from independent shops in Europe, or in some cases from the brands themselves, which pass goods on to independent resellers. Agents spirit the goods into China for a fee, usually without paying import duty. Some transactions are arranged through networks of friends but many take place online. Taobao, one of China's main e-commerce businesses, has a website dedicated to *daigou*, g.taobao.com. Up to 30% of luxury sales in China come through this channel, reckons Bruno Lannes of Bain.

Daigou outlets sometimes mix fakes with the real thing, which is why Ms Cheng warns her readers against them. China's commerce ministry has proposed cutting import and consumption taxes to discourage the grey market and boost domestic sales. But in a political climate which frowns on luxury, that is unlikely to happen, so black and grey are likely to remain fashionable colours. ■



Demographic trends

Marques for millennials

Young people choose and buy differently

THE MOST COVETED ticket at London's half-yearly fashion weeks is to Burberry's Prorsum show, where the British trench coat-maker presents its upmarket ready-to-wear clothing. Christopher Bailey, the brand's chief creative officer and CEO, likes to surprise his audience. At the birds-and-bees-themed unveiling of his women's wear for spring and summer 2015, held in September in London's Kensington Gardens, the sartorial novelty was an indigo wasp-waist denim jacket. The digital novelties included a highlights tape on YouTube that let viewers zoom in to focus on various aspects of the show, such as the music. Twitter used the occasion to launch in-tweet purchasing for luxury.

This is a big change from the traditional model of presenting fashion in which designs are conceived at the top, handed down to journalists and buyers at fashion-week set-pieces and pop up in the shops four or five months later. Technology has narrowed the distance between designers and consumers and sparked a conversation. YouTube, Instagram, WeChat and the like have "completely disrupted" the way fashion companies communicate, says Imran Amed, editor of *The Business of Fashion*, an online journal.

This is the first of three technology-induced changes that will profoundly affect luxury brands. The second is a shift from selling in physical stores to online. The third, for now only just visible in the distance, is a technology-related change in the way luxury goods are made.

The digital transition is running alongside a demographic one. By 2026 the main consumers of luxury will be millennials (or generation Y), people born in the 1980s and 90s, says Unity Marketing, an American market-research firm. Brands with pedigrees can use technology to win this age group over, as Burberry is trying to do. Newer ones can employ it to break through.

A study by the Boston Consulting Group reckons that millennials "are geared to pleasure rather than to possessions", mak-



Burberry was among the first to spot millennial potential

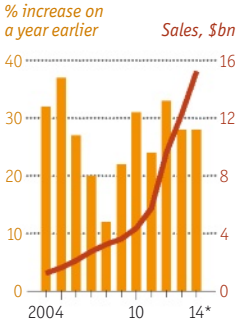
ing them less inclined to buy things. They are assertive, sceptical of authority and nonconformist, none of which bodes well for traditional luxury brands. On the other hand, photo-sharing social media like Instagram put a premium on appearance, argues Mr Denis of Jimmy Choo, which should be a good thing for companies like his. In the same vein, Eric Briones, a French consultant who has written a book about the millennials' relationship with luxury, says they consume it "without remorse".

But not uncritically. Brands must prove that their products are worth the price, not rely on mystique alone. Generation Y-ers tend to be unimpressed by logos but entranced by "codes", subtler ways of conveying a brand's identity. The red soles of Christian Louboutin's shoes and the quilting on Chanel's 2.55 handbags are the sort of signs that young consumers can make their own, says Mr Briones. Unhappy customers can sound off on websites such as styleforum.net. Some millennials also want luxury goods to be made in ways that damage neither workers nor the environment.

Burberry was among the first to spot millennial potential. In the early 2000s Britain's ostentatiously vulgar "chavs" (a particular group of loutish lower-class youths) were sporting the brand's distinctive tartan plaid as their unofficial uniform. It appeared on baseball caps, even dogs. Angela Ahrendts, an American who became the company's chief executive in 2006 (and has recently left for Apple), made the digital courtship of millennials a centrepiece of her strategy for reviving the brand. Today Burberry is unabashedly digital. Two-thirds of its staff are under 30 and use social media to talk both to each other and to Burberry's customers.

Net de luxe 4

Global online personal-luxury sales



Sources: Barclays, Bain; *The Economist* *Forecast

Burberry sees its website and its shops as complementary. It even struck a deal with Amazon to list beauty products on the online retailer's site. In the six months to September 30th Burberry booked a year-on-year rise in revenue of 14%, largely thanks to buoyant digital sales. It recently assumed direct control of its cosmetics and fragrances business, hoping to "disrupt beauty through digital".

Disruption is not something that comes naturally to most established luxury brands, but when they embrace it they sometimes do it well. Creative directors are increasingly targeting millennials. The mission of Louis Vuitton's newly appointed creative director, Nicolas Ghesquière, is to "reboot the monogram", making it less of a logo and more of a code, says Mr Briones.

Live-streaming of catwalk shows is now common practice, as is giving celebrity bloggers front-row seats alongside editors of the main fashion bibles. Brands feed their "communities" with streams of images on Instagram and Pinterest and Hollywood-quality videos on YouTube. Cartier's L'Odyssée de Cartier, starring a bejewelled panther, has been seen 17.6m times.

But the conversation between luxury makers and their public can easily take an awkward turn. Stella McCartney, a designer who likes to display her social conscience, got into trouble when her company's Instagram stream featured a photo of a painfully skinny model. On receiving complaints from fans, her company removed the photo and declared its enthusiasm for people of all colours, shapes and sizes.

Actually selling luxury online is more difficult than talking about it. Even brands that dabble in it doubt that any website can match the experience of shopping in a boutique. "To buy a luxury product you have to touch it," says Mr Arnault. Many companies offer just a small range of their products for digital sale, and some none at all.

But e-commerce is making inroads. Net-A-Porter, a website that pioneered internet sales of upmarket fashion, has a customer base of 6m women and has persuaded some 650 brands to offer their wares on its platform. For now only about 8% of all luxury sales are online, but they are growing at a rate of 25-30% a year, says Claudia D'Arpizio of Bain's Milan office. Much of this is at the expense of independent boutiques. If the share of digital sales goes much above 10%, investment in stores "will be rethought", she says.

Goodbye to Bond Street?

The future is "direct to the consumer through the internet", says Nathan Morse, who runs the business side of Hannah Martin, a London jeweller. It belongs to a new generation of luxury houses with no hang-ups about e-commerce (and not enough money to open a lot of stores). They may have short histories, but they have stories. Hannah Martin's androgynous pieces are fashioned by hand in London.

It used to take 30 years to build a global brand, says Uché Okonkwo-Pézard of Luxe Corp. Thanks to the internet, "now you can become global in 18 months." That has spawned new brands as well as business models. Bargain-hunters can turn to online outlets like The Outnet or flash-sales sites such as vente-privee and mei.com. People who want to hire can try Bag Borrow or Steal or LuxTNT, a Hong Kong startup. Second-hand luxury is available from stylesequel and InstantLuxe. Such services have been around for a long time, notes Stephanie Phair of The Outnet, but they have been "supercharged because of the internet".

The final challenge is to decide how far to incorporate technology into the making of luxury, and perhaps into luxury itself. Iris van Herpen, a Dutch fashion designer, uses 3D printing to construct her garments. Ralph Lauren makes a handbag with a light and a smartphone charger. Suppose machines could stitch Birkin bags better than the craftsmen at Hermès or etch watch dials more finely than Vacheron Constantin's *guillocheurs*? "The big gap between hand work and technology will become smaller and smaller," predicts Ms van Herpen. Luxury can embrace innovation; what it must be wary of is obsolescence. ■

The future of luxury

Experience counts

Providers of luxury need to offer more than expensive baubles to take advantage of a growing market

"TEN YEARS AGO you would have auctioned handbags." Ben Elliot, the boss of Quintessentially Group, a concierge service that helps the rich organise their lives, is explaining a shift in the way that money is raised for charity. These days a kickabout with David Beckham, or perhaps a cycling trip from Venice to Rome, would be more effective: "It's about the bragging rights of doing something others can't do," he says.

If sophisticated consumers are shifting their preferences from handbags to handlebars, makers of luxury goods need to pay attention. The rich set trends, and their notions of luxury trickle down. European consumers now "put more value on inward things", Mr Elliot thinks. Revenues of upmarket hotels this year are expected to grow by 9%, four times the rate of luxury-goods sales. Even the Chinese are tilting a bit from having to being: during this year's Golden Week, an autumn season of concentrated consumer frenzy, the number of transactions in shops was 30% up on last year but that in restaurants and hotels rose by 52%, according to UnionPay, a payment-card company.

What qualifies as an experience people are prepared to pay for is also changing, to something more elaborate, more private and sometimes even stripped almost bare of conventional comforts. David Leppan, a South African-born millionaire, is not much interested in conventional luxury, but reckoned that a recital by Plácido Domingo at Seville's Alcázar palace, arranged by NetJets, a firm that hires out private planes, was "pretty much priceless". Mr Elliot's colleagues at Quintessentially cite the Antarctic Ice Marathon as the sort of activity its clients appreciate. Swish hotels nudge guests away from the familiar to the authentic. "Luxury can be the absence of strawberries in wintertime," says Frank Marrenbach, who runs the Oetker Group's chain of hotels. His chefs prefer to offer seasonal fruit.

In a YouTube video for Johnnie Walker Blue, a top-of-the-range whisky, two friends (played by Jude Law and Giancarlo Giannini) swap ownership of a beautiful old sailing boat on the basis of unlikely wagers. If ownership does become separate from enjoyment, makers of luxury goods will have something to worry about. That moment may not have arrived yet, but as consumers become more sceptical, more discriminating and more interested in experiences, it is coming closer.

It is not as though the rich have stopped buying stuff. The average billionaire owns $6m-worth of luxury goods, not to mention yachts worth $22m, according to Wealth-X, a research firm founded (and later sold) by Mr Leppan. But increasingly such purchases form part of an experience. In the video Mr Law needs a new made-to-measure suit for the dance that will win him the bet on the boat. Savoir Beds, a British firm, is making a rotating bed for the new owner of a French château so that he can enjoy the view both of the surrounding countryside and of the fireplace on the opposite wall. Sellers of less bulky luxuries who make bespoke products for their best clients often add events to their offering. Ferragamo, the Italian shoemaker, treated its favourite Chinese customers to a trip to its workshop in Florence.



Just for you and me

Make it special

Most consumers are not in that league. More than a third of luxury handbags sell for less than €500. The ranks of people who covet such goods are destined to grow; once hooked, they will trade up. Globally, McKinsey expects the number of big-city households in emerging markets with incomes of more than $70,000 a year to treble by 2025.

Makers of luxury have come to realise that the paradox of industrial craftsmanship can be pushed only so far. To captivate new clients and keep the older ones on board, brands will have to invest shopping with a sense of occasion and give ordinary customers some of the individual attention they have lavished on their biggest-spending ones. Increasingly, that is what they are doing. When Burberry launched a perfume in September, it gave customers a chance to inscribe bottles with their own initials, both in shops and online.

Consumers still want to hear the story that luxury tells, perhaps more than ever as the world comes to seem more rootless and mass-produced. In London's Savile Row a small crowd of men and women, nattily clad in mid-20th-century garb, recently staged a demonstration against two shops selling clothes by Abercrombie & Fitch, an American fashion chain. "Give Three-Piece a Chance," demanded their placards. To the demonstrators, the intruder was the antithesis of Savile Row's made-to-measure tailoring. "We're not proper Savile Row-type people," said the protest's organiser, Gustav Temple, who edits an obstreperously nostalgic magazine called *The Chap*. "But we hope to be one day." The brides of Trang Tien Plaza would understand. ■



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Christmas celebrations

Oh what fun

BEIJING

Christmas with Chinese characteristics

CITIES across China blink with fairy lights, fancy hotels flaunt trees and tinsel, and glossy magazine covers display festive recipes and table settings. "Joy up!" reads a sign (in English) on three illuminated trees by a shopping mall in Beijing. The Chinese are doing just that.

In the first decades of Communist rule in China Christianity was banned, along with other religions. Now there are tens of millions of Christians in China and faiths of all kinds are blossoming. But this has little to do with the country's fast-growing fascination with Christmas. In the West the holiday is a commercialised legacy of Christian culture; in China it is almost entirely a product of Mammon. Father Christmas is better known to most than Jesus.

Well before Christmas took hold in China's cities, its factories were churning out Christmas essentials for consumption in the West. Industrially, China is now the Christmas king. According to Xinhua, a state-run news agency, more than 60% of Christmas trinkets worldwide last year came from a single "Christmas village"—Yiwu (in fact, a city), in the eastern province of Zhejiang.

But ever more of these goodies now stay in China, to satisfy a domestic craving. Some are tailored to Chinese tastes: Father Christmases playing the saxophone, for example, are a common decoration—no-one quite knows why. This year some shops are putting Santa hats on sheep; the Chinese new year in February, another excuse for hedonism, will be sheep-themed. A shop selling sex aids in Beijing displays a mannequin with a short Santa hot-pants suit, complete with white furry leg warmers.

Christmas in China never really ends. Decorations sometimes remain up year-round. In 2016 the south-western city of Chengdu will host Asia's first "Santa-Park"—a giant Christmas-themed amusement park modelled on a Finnish attraction. It will be known as the "official home of Santa Claus" (despite Chengdu's sweltering summers and mild winters).

Family reunions are not part of Christmas tradition in China; for most people it is a chance to enjoy public displays of lights, and, for a growing number of younger Chinese, to exchange gifts with colleagues and friends (China's home-grown festivals are not so centred around gift-giving). As elsewhere, Christmas in China is a merry time to shop.



Jazzing it up

first "national constitution day", *Xuexi Daguo* ("A great power that learns"), a WeChat service probably linked with the *People's Daily*, published a story with the headline, "What is the difference between Xi Dada's 'governing by the constitution' and 'constitutionalism'?"—hardly snappy, but not the kind of words used by the print edition.

Attracting online readers is crucial to the party. About 80% of those connected to the internet in China use it to browse the news. This is a potential audience for the party's digitised line of 500m–200m more than five years ago, according to the China Internet Network Information Centre. Many read the news on WeChat, which has nearly 470m active monthly users, most of them in China. The *Paper* had the 13th-most popular WeChat media account in the first week of December, according to an independent ranking. The top such accounts were those run by two of the party's most trusted organs: China Central Television and the *People's Daily*.

The *Paper* is still not a money-maker. Its most popular stories get close to a million views, but most stories get very few. This is a familiar problem around the world in the digital age. But the party, like some Western media moguls, may not care much about profit in this early stage of experimentation with new-media formats. The *Paper* has become a model: media bosses and propaganda officials from elsewhere in the country have been paying visits to study its techniques. ■

Football

The party's goal

SHANGHAI

Football, long a national shame, becomes compulsory at school

ONE of the most dismal days in the history of Chinese national football was June 15th 2013, President Xi Jinping's 60th birthday. Having lost to Uzbekistan and Holland in friendly matches earlier that month, China were thrashed 5-1 at home by a Thai youth team. Furious Chinese fans swarmed around China's Spanish coach, José Antonio Camacho and smashed cars. Mr Camacho resigned.

Men's football in China is a national shame. In FIFA's world rankings China's male players rank 88th; below Estonia, a country whose 1.3m people could fit with room to spare inside a Beijing suburb. China qualified for the World Cup once, in 2002, but failed to score. Its domestic league is blackened by tales of match-fixing and bribery. Investment in expensive foreign coaches has not been much help.

Mr Xi wants to change this. He has been a football fan since childhood, when he played for his school team. During his early career he attended weekend matches. He was in the crowd at a Shanghai stadium in 1983 when China lost 5-1 to Watford, a British club. (The *People's Daily*, a party-run newspaper, says Mr Xi was enraged.) At a meeting in 2011 with South Korean leaders, when he was still vice-president, Mr Xi expressed three wishes: for China to qualify for, host and win a World Cup.

The country's rise as a football power might have just begun. On November 27th it was announced that football would become a compulsory part of the national curriculum at schools. Wang Dengfeng, an education official, said improving the standard of football in China must "start with children". By 2017 some 20,000 schools are to receive new football pitches and training facilities, with the aim of creating 100,000 new players. In 2016 football will become an option in the national university-entrance exam. This could help overcome resistance among parents to their children being distracted from their academic studies by ball-kicking.

The capital, Beijing, is pioneering these efforts. Its education bureau already has a football consultant, Tom Byer, an American who has worked to boost grassroots football-playing in Japan. Mr Byer says he is "very optimistic that the Chinese government is headed in the right direction". He could be right: if more Chinese children are exposed to football, a far stronger corps of elite players will surely emerge—though not in time for Mr Xi's next birthday. ■

Banyan | Tiger in the net

Zhou Yongkang may well have been corrupt. His real problem was losing a power struggle



HE HAS always looked a rather nasty piece of work, and China's press now tells us just how nasty. Zhou Yongkang is a thief, a bully, a philanderer and a traitor who disclosed state secrets. The spider at the centre of a web of corrupt patronage, he enriched himself, his family, his many mistresses and his cronies at vast cost to the government. Many Chinese reading the reports of his arrest released early on December 6th must have felt delighted that at last his comeuppance had arrived. But many must also have asked themselves how such a thoroughly bad egg came so close to the pinnacle of political power in China. And some may have wondered why, in its 93-year history, the Chinese Communist Party had promoted so many villains to its upper ranks.

Mr Zhou was for five years the party's most senior official responsible for the pervasive internal-security apparatus. He is the most senior Chinese politician to face criminal charges since the "Gang of Four" of Chairman Mao's close associates was arrested in 1976. Since then serving or retired members of the party's highest body, the Politburo's Standing Committee, have been immune from the most humiliating forms of political retribution. Leaders such as Hu Yaobang and Zhao Ziyang, dismissed in the 1980s for flirting with liberalism, were never publicly disgraced. They even remained party members—and, in Mr Hu's case, on the Politburo. Other party leaders have faced criminal charges: Chen Xitong, a mayor of Beijing, was convicted of corruption in 1998. So, a decade later, was Chen Liangyu, mayor of Shanghai. Both were Politburo members; but neither had reached the party's innermost sanctum, the Standing Committee.

Nor had Bo Xilai, the former party secretary of the municipality of Chongqing, though some had expected him to be promoted to it at the party's most recent congress, in 2012. But by then Mr Bo had been toppled in a scandal involving corruption, murder and the abuse of power, whose reverberations ultimately led to the downfall of his most powerful ally in Beijing, Mr Zhou. Until now, Mr Zhou's status as a former Standing-Committee member would have been expected to protect him.

The big winner in all this is the party's leader since that congress, China's president, Xi Jinping. It confirms Mr Xi's status as the strongest Chinese leader at least since Deng. He has shown where power really lies: with him; and no longer with the sort of collective leadership seen under his predecessor, Hu Jintao. In that arrangement, Mr Zhou, a man now depicted as a power-hungry villain, became nearly as influential as Mr Hu himself, in part because of his grip on the security services and legal system.

Putting Mr Zhou on trial may also help boost Mr Xi's considerable popularity, by appearing to prove the sincerity of his campaign to cleanse China of corruption, both by high-ranking "tigers" as well as the lowly "flies" buzzing around the dung heap of China's public ethics. It lends credence to Mr Xi's recent emphasis on the importance of the law, suggesting that no one is above it.

But the party itself is above the law. The ritual of political humiliation follows a rigid protocol: first, the internal party investigation; second, expulsion from the party. Only then—at the party's behest—are legal charges framed. In the case of Mr Zhou, the Chinese press has tried to present his fall from grace as purely about the party purging itself of corruption, rather than some internal power struggle. "The party and corruption are like water and fire," sobbed its mouthpiece, the *People's Daily*, surprising those who think they are more like dry tinder and matches.

Some, however, will still recognise the politics behind Mr Zhou's fate. Power struggles in the Chinese Communist Party have changed in form since they were waged among guerrilla fighters denouncing each other in arcane Marxist-Leninist jargon in the caves of Yan'an; or, during the Cultural Revolution, using student-written "big-character posters", dunce caps and mass violence. These days the alleged sins of the losers involve money and sex rather than ideology or loyalty to the leader; and the disgraced get their day in court. But it is hard not to see corruption allegations as the latter-day weapon of choice in the winner-takes-all power struggles that the party has always suffered.

That impression is heightened by apparent factional bias. Research by Geremie Barmé, an Australian scholar, suggests that of 48 "tigers"—high-level suspects—investigated for corruption between the party congress in 2012 and this September, not one was a member of the "red second generation": the "princeling" offspring of party leaders. Mr Xi is a princeling (as is Mr Bo, whose challenge to Mr Xi could not be ignored). Many others occupy important positions. Some even propagate an ideology reminiscent of the "revolutionary blood lineage" theory North Korean dictators use to justify dynastic succession. "Through revolution and the heritage of blood, our parents bequeathed to us the Red Gene," Mr Barmé quotes one as writing. Mr Xi certainly gives the self-confident impression of a man born to rule, and to safeguard the political order his father and his comrades helped to build.

Merit points

This, like the party's near-miss with Mr Zhou, undermines claims that China is a functioning meritocracy, in which ability and experience alone dictate career paths. The party's apologists like to point out that abuses can happen at the peak of any political system—Richard Nixon and Watergate is a favourite example—but that in China they will be rooted out. This is debatable. Nixon was toppled because of checks and balances within the American polity, such as a free press. Mr Bo and Mr Zhou fell because of a series of accidents—the murder of a British businessman and the decision by Mr Bo's police chief to tell all in an American consulate. So Mr Zhou's case carries a danger for Mr Xi. By advertising the party as motivated by its zeal to combat corruption and as led by those promoted solely on merit, he may raise expectations of transparency and honesty that he will find hard to meet. ■



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The fight against Ebola (1)

Exorcising the ghostly fever

TAKPOIMA AND FREETOWN

Slowly and messily, the struggle against the virus is being won

THE first time Jonah Kieh heard about Ebola was last spring, when a friend warned him of a "wickedness" spread by ghosts, turning victims feverish and then killing them. Mr Kieh was visiting his extended family near Takpoima, in the forest of Lofa-Mano national park in Liberia, to sell hair brushes and other cosmetic products from Monrovia, the capital. He paid little heed to the wickedness, but after several weeks he became frightened as people kept dying around him. "I ran back to Monrovia," he says. Back in West Point, the city's main slum, Mr Kieh fell ill with either Ebola or malaria (the initial symptoms are very similar). He stayed indoors for weeks and eventually recovered.

Mr Kieh's story says much about the spread of Ebola. The illness first broke out some time in December 2013 in the remote town of Meliandou, in the forest of Guinea. Through ignorance, lack of prompt diagnosis and the movement of people, it spread and took hold in the teeming cities of the region—especially Monrovia and Freetown, capital of Sierra Leone.

It took months for villagers to view the virus as a medical rather than spiritual problem, superstition being a central part of life in the forest. Occult leaders encouraged the expulsion from the community of the sick, further accelerating the epidemic. Even when villagers accepted the need for medical help they initially relied on traditional healers who treated them with tree bark. Dead bodies, which are highly infectious, continued to be washed by hand before burial, according to local rituals. Rather than isolate the sick, families drew closer to care for them. "Relatives came to bring food and be together," says Mr Kieh. Especially in the cities, cramped conditions provided favourable conditions for a disease that is passed on by contact with body fluids. Neighbours share toilets, taps, bedrooms and, at times, mattresses.

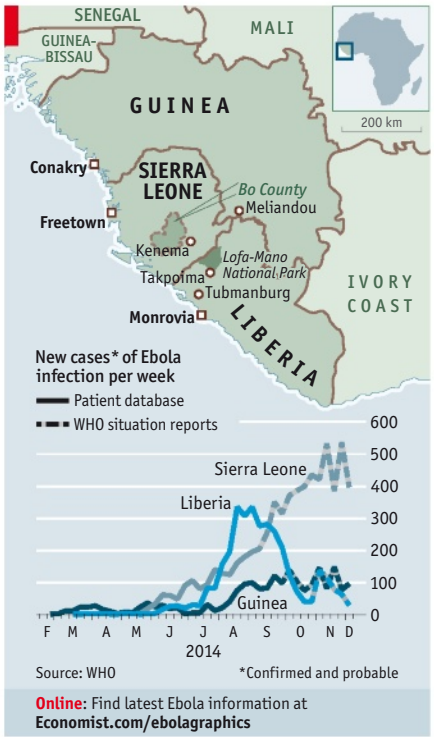
The situation was made worse by mistrust of government. Many avoided health workers and hid the sick so that they would not be taken away to hospitals, where the patients all seemed to come out dead. Indeed, some blamed the government for the sickness. "Anything so deadly must come from the powerful, we thought," says Momo Conneh, a teacher in Takpoima. Years of conflict, and power-grabbing elites, have bred profound mistrust of officialdom. In Liberia the descendants of American slaves are dominant. In Guinea officials a generation ago tried to secularise rural communities and destroyed symbols of traditional worship, such as masks.

Eventually, though, communities have listened to advice and adapted: "learning by dying," as one foreign-aid worker put it. After watching neighbours perish, handwashing with diluted bleach is now common in the region, as are signs saying ABC: Avoid Body Contact. Instead of shaking hands many greet each other by touching covered forearms or legs. In churches many congregants sit a few inches apart to avoid contact. Public buildings have temperature checks at the entrance. Ebola survivors are being enlisted to travel to affected towns and educate people by retelling the story of their healing. Others volunteer in hospitals, taking advantage of their hard-won immunity. "Someone like me has a duty to help," says a 26-year-old survivor in Tubmanburg in Liberia. Clinical trials with transfusions of survivors' blood are starting (see next article).

Hospital treatment and swift burials have become commonplace. Grave-diggers say they were taunted a few months ago but now receive occasional expressions of thanks. Secret funerals by candlelight in breach of strict government rules have become rarer. One nurse in Conakry, the capital of Guinea, shows off a pocket calculator given to her by the grateful family of a patient.

Fear is slowly waning. Some already speak about Ebola in the past tense. In Monrovia combative football matches are played on the edge of West Point and markets are thriving. A nightclub called Moon Bar playing American hip-hop reopened after painting anti-Ebola slogans on the wall. Patrons say they are warier of strangers; aftershave masks the smell of chlorine.

In September American officials estimated that, in a worst-case scenario, 1.4m people might become infected by January. Such figures now seem alarmist, given that the total number of infections stands at fewer than 20,000 (with about 6,300 deaths). The number of new cases is falling sharply in Liberia, though it remains high in Sierra Leone (see chart, next page). Hospital beds remain in short supply in Sierra Leone and new graves are being continually dug. Though the outbreak started in ▸▸



Online: Find latest Ebola information at **Economist.com/ebolagraphics**

Guinea, its epidemic was not as acute.

What accounts for such differences? Three possible explanations have been advanced. First, health infrastructure is better in Guinea. According to Afrobarometer, a research company, the share of people with access to clean water in Liberia and Sierra Leone is 11% and 25% respectively, while in Guinea the figure is 83%. Similar discrepancies apply to the health sector.

Second, the three countries have received different levels of international help. Guinea, a former French colony, received what little it needed promptly from France and was able to confine the disease mostly to rural areas. Liberia, founded by former American slaves, has been the recipient of a vast American aid effort. Sierra Leone, a former British colony, received help from the United Kingdom on a smaller though now increasing scale.

A third factor is that Sierra Leone has struggled with public-sector strikes. Hundreds of health workers in Bo County protested in November against the government's failure to provide a promised additional $100 a week in hazard pay. In Freetown hundreds of unpaid contact tracers besieged the health ministry. In Kenema unpaid burial workers dumped dead bodies, among them babies, on the street outside a hospital.

Overall Sierra Leone may be cursed by the fact that it is neither as developed as Guinea, nor as wretched as Liberia, which still has a UN peacekeeping mission that could offer help before the American effort took off. Geographically, too, Sierra Leone is the middle country, with Ebola-struck nations on all sides.

Nonetheless, the UN reckons that in most of the region it is now meeting its goal of getting 70% of the infected into clinics and 70% of the dead properly buried—the level needed to tame the epidemic. One consultant says the fight has turned from an industrial war into a guerrilla fight. Some doctors and aid workers fear this is just a lull: the recent end of the rainy season may lead to an increase in travel and, with it, rising rates of infection. In any case, World Health Organisation officials warn that complacency is a "major obstacle".

The biggest challenge now confronting Ebola-struck states, particularly Guinea and Liberia, is to control new cases in remote areas, lest they start a new cycle of infection. There is a shortage of personnel; remote communities struggle to live with the rigour of avoiding body contact. Can a sick child, perhaps one that has lost its parents, be entirely quarantined?

The worst-affected west African countries took time to respond effectively to the crisis. But their governments now appear to be fully focused on the problem. In Sierra Leone and Liberia, health ministers have been replaced with more capable officials. The collapse of already-weak institutions, a prospect that many worried about just a few months ago, has been averted. Liberia is already planning to have a national remembrance day for Ebola victims once the epidemic is over.

There is much that could still be done better. The response continues to be hampered by poor co-ordination and the weakness of states; morticians can be bribed to release infected bodies to relatives who want a traditional burial; clinics are short of donated gloves, which end up on the black market; donors complain of vehicles unaccountably disappearing. By contrast, local officials complain of foreigners who prefer to give funds to external organisations rather than to state bodies. Yet the judgment of one consultant, who drew a parallel with the British army's retreat from Dunkirk in 1940, sounds about right—the struggle is "chaotic, but a success". ■

The fight against Ebola (2)

Donating the cure

FREETOWN

Doctors start clinical trials with the blood of survivors

IN THE race to find a treatment for Ebola even the most promising drugs and vaccines are months away from widespread use for patients. Yet one potential cure is available in great quantities—the blood of survivors. On December 8th the first clinical trials of blood transfusions started in Sierra Leone.

The experiment is led by local doctors, who say they can no longer bear to sit by as countrymen succumb to the disease. They are motivated by evidence from a 1995 outbreak in the Democratic Republic of Congo, in which seven of eight Ebola patients lived after transfusions of blood from survivors.

The key components of convalescent blood are antibodies against the Ebola virus. These proteins stick to the virus to block it from causing more harm. Normally it may take weeks for a patient's immune system to recognise invading viruses and generate antibodies against them; many people succumb to Ebola before this defence kicks in.

Several modes of antibody treatments (among others) are being developed, including ones that contain antibodies that have been isolated and concentrated from blood (or cloned or synthesised). These have the advantage of purity, but require advanced technology. Whole blood might, however, offer other benefits such as interferons (proteins that also help fight viruses) and may have contributed to patients' survival in the past.

Foday Sahr, one of the clinicians leading the trial in the capital, Freetown, expects to have results from 100 patients by early January. With an average of 59 cases per day in Sierra Leone, and odds worse than 50% for survival, Dr Sahr expects no shortage of participants for the tests. Tapping survivors for blood may be harder, but the team has been working closely with local survivor support groups, presenting blood donations as an act of heroism. They will offer honorariums of $69 (half the population earns less than $1.25 a day) to survivors who qualify as donors, eg, they must be free of HIV, hepatitis and syphilis.

Meanwhile, in Guinea and Liberia, a 100-participant study of blood treatments and also tests of antiviral medications should begin trials later this month. If the blood trials show a benefit, the therapy could be scaled up fairly fast—without having to pass through the regulatory process and price negotiations involved with pharmaceuticals.

As important, the mere existence of an intervention for the sick may convince people to send their ailing loved ones to the clinic, rather than care for them at home, which is dangerous. "If people believe that there is a treatment, they will come to the hospital more often and earlier," says Simona Zipursky, with the WHO in Sierra Leone.

The war against Islamic State

In the crosshairs

CAIRO AND DUBAI

Westerners in the region are increasingly being targeted

UNTIL the American-led coalition started bombing Islamic State (IS), the group was focused on spilling the blood of fellow Muslims and minorities rather than Westerners—in contrast with al-Qaeda before it. But last August, when air strikes began in Iraq, IS started beheading American and British hostages. And when the bombing extended to Syria a month later, IS urged devotees to attack Westerners wherever they were found. A spokesman helpfully suggested several methods, including poisoning and car accidents.

Grimly, extremists have taken up the call, both in the West and, increasingly, in the Middle East. This week the British and Canadian embassies in Cairo, Egypt's capital, closed their doors for two days, citing unspecified threats. In November, a Dane was shot in the shoulder when leaving work in the Saudi capital, Riyadh, in an attack filmed by IS supporters. Separately, a Canadian was stabbed in a shopping centre in the eastern province.

Most shocking of all was the attack on December 1st in Abu Dhabi, the capital of the United Arab Emirates, when a local woman stabbed and killed an American schoolteacher, Ibolya Ryan, in the bathroom of a shopping centre. The attacker then planted a makeshift bomb at the door of an American doctor. Only a month earlier, jihadist web forums had suggested American teachers and schools in the region were desirable targets.

Anti-Western violence is thus returning to places that recently appeared safe. In Egypt visitors have been repeatedly targeted: in 1997 gunmen in Luxor killed 62 people, and bombers attacked tourist hotels in Sinai in 2004-05. But after the Arab spring protests of 2011 and the restoration of military rule last year, life for foreigners has settled down and tourists have started to return to the beaches and ancient sites. Similarly in Saudi Arabia, after a rash of al-Qaeda bombings ended in 2005, oil-workers and businessmen have got on with normal life. And the UAE long appeared to be a peaceful oasis; almost 90% of its 9.3m people are foreigners, including tens of thousands of Britons.

Attacks in the West, though infrequent, also appear to be rising. On October 23rd a radical Muslim wounded two policemen in New York with an axe. That came a day after a man in the Canadian capital, Ottawa, shot dead a ceremonial sentry at the war memorial and then ran into the parliament, where he was shot and killed.

Such attacks appear to be perpetrated by "lone wolves" rather than by organised groups. Governments can attempt to monitor IS affiliates—such as the Algerian group that beheaded a French tourist in September; and Ansar Bayt al-Maqdis, the Egyptian group that renamed itself "Sinai Province" of IS's self-declared caliphate. But individuals acting alone or in small cells are harder to identify. They can get ideas from the internet rather than having to make contact with any organisation.

For the most part, it is still the people of the region who suffer most. Jihadist violence has been predominantly directed at non-Muslim minorities, Shias, Sunni tribes that dare resist IS's rule, as well as fighters from rival armies and militias. Hundreds have been executed by IS as it has extended its caliphate in Iraq and Syria. Beyond, eight Shias were killed in Saudi Arabia last month by suspected IS sympathisers. Ansar Bayt al-Maqdis has killed scores of Egyptian soldiers in bombings this year.

It makes for a new trend in jihadist violence. Whereas al-Qaeda still seeks to organise spectacular attacks on the West, IS is discovering that undirected, smaller-scale attacks might be just as unnerving. ■



The faceless killer in Abu Dhabi

Palestine's land conflict

Death in the olive groves

The death of a prominent Palestinian official threatens to inflame tempers

FEW Palestinian towns are as tranquil and prosperous as Turmusaya. Red-roofed homes dot the valley and palm trees line the road leading to it, like a resort in Florida, where many of its people now live. With the nearest Jewish settlement hidden beyond the brow of surrounding hills, it almost seems possible to forget the Israeli occupation.

The calm rarely lasts long. On December 10th Israeli soldiers broke up a Palestinian attempt to plant olive trees on land they claim as theirs. In the scuffling and tear-gassing, Ziad Abu Ein, one of the more visible Palestinian officials, collapsed and died. Unlike colleagues who prefer the comfort of government corridors, Mr Abu Ein, a former minister dealing with settlement issues, was often at protests.

At a time of more intense Israeli-Palestinian violence and at the start of a fevered Israeli election campaign—and with no peace talks in prospect—there are fewer checks on an escalation in violence.

Mahmoud Abbas, the Palestinian president, now faces pressure to respond to what his officials call Israel's "assassination". From his office in Jordan, where he spends much of his time, he declared three days of mourning. Officials in Ramallah claim he has acted on his threat, made earlier in December, to halt co-ordination between Israel's army and Palestinian security forces, who act to prevent attacks on Israel and frequently form a buffer between protesters and Israel's army.

Of late the conflict has been concentrated in cities, particularly Jerusalem. Since the summer, young Palestinians have often clashed at night with Israeli police. The mood turned uglier in the autumn over a campaign by Jewish radicals to establish a right to pray on the grounds of the al-Aqsa mosque. This is Islam's third-holiest shrine, which stands on the ruins of the former Jewish temple. Palestinians have attacked Israelis with knives or used their cars as weapons. In total ten Palestinians, nine Jews and two Druze have been killed since October 22nd.

The latest death is a reminder that the battle for rural land is also at the heart of the conflict. Along with their expansion of housing, settlers around Turmusaya are expanding the land they use for their agri-businesses.

Human-rights groups accuse Jewish militants of poisoning and uprooting Palestinian olive trees that stand in their way, ▸▸

and of beating their farmers. When farmers try to replant the olive trees, Israeli soldiers bar their path.

In the run-up to Israeli elections, settlers are likely to grow more emboldened as politicians compete for their votes and those of an increasingly right-wing electorate. On December 8th the government approved the transfer of an additional $28m to the settlements. The defence minister, Moshe Yaalon, proudly told settlers near Bethlehem that Israel is building homes in settlements faster than anywhere else. Haaretz, a liberal daily, reported that Israel's army has mapped 26,000 hectares of West Bank land for possible transfer to settlements. These include 3,500 hectares designated for firing zones, an army category that keeps Palestinians off their land.

Such plans are far from fruition. But polls predict that Jewish Home, a religious party representing settler interests, will come second in the race between a possible 13 parties. Its leader, Naftali Bennett, has already proposed annexing the rural 60% of the West Bank, officially known as Area C, that is under full Israeli control. He is also eyeing the post of defence minister, which would make him in effect the sovereign in the occupied lands of the West Bank. With or without Palestinian security co-ordination, rural communities like Turmusaya will find themselves increasingly on the front line. ■

The state and Islam

Converting the preachers

CAIRO

Across the Arab world, rulers tighten their grip on the mosque

SAUDI ARABIA has long used a simple method to regulate mosques. The oil kingdom lavishes clerics with money and perks that can suddenly vanish if their preaching goes astray. If that does not work they are fired or parked in jail. Now Saudi preachers face a new constraint: starting next year authorities will install centrally monitored cameras in every mosque to record what goes on inside. The move is ostensibly meant to prevent theft and regulate energy use, but few doubt the real intention is to tighten the state's grip on Islam, part of a trend across the Middle East.

Critics have long reviled Saudi Arabia for its sponsorship of a rigidly puritanical brand of religion. The ruling Al Saud family, whose legitimacy rests in part on a 270-year-old pact with the Wahhabi school of Sunni Islam, has tended to shrug off the complaints. But in recent months it has worried about a backlash from conservatives angered by the government's enthusiastic support for the crackdown against the Muslim Brotherhood in Egypt, as well as its participation in the American-led military coalition against Islamic State (IS) in Syria and Iraq. Apparently fired up by IS propaganda, radicals in the kingdom have lately targeted "infidel" Westerners and "deviant" Shias in a string of small but deadly terror attacks (see previous story).

In fact, the Saudi effort to tone down its clerics is mild, hesitant and belated compared to what some Muslim states do. Uzbekistan, Kazakhstan and Tajikistan already routinely use cameras. Kuwait has long installed tape-recorders to monitor Friday sermons. Preachers in the neighbouring United Arab Emirates need not



write their own sermons. Except for a few trusted senior clerics, they read instead from a text delivered weekly by the government department for religious affairs that also pays all their salaries. "Protecting Youth from Destructive Ideas" and "Our National Flag, Symbol of Affiliation and Loyalty" provided two stimulating recent topics. Similarly, Turkey has for decades enforced a monopoly of Islamic discourse via a religious bureaucracy, known as Diyanet, that wields 121,000 employees and a budget of $2.3 billion.

Other governments aspire to such dominance. Tunisia's government has in recent months restored strict state control of mosques that had slipped following its revolution of January 2011, leading to a brief flowering of Wahhabist-style *jihad* promotion. Morocco, whose king has traditionally posed as Commander of the Faithful, delivering televised Ramadan sermons, has steeply boosted state promotion of a relatively tolerant version of the faith. Its budget for training imams, including a growing number of foreign students, has swollen tenfold in the past three years. The unspoken aim is to counter the spread of extreme Salafist ideas in places such as Mali and northern Nigeria.

Egypt is conducting a still more radical overhaul. As long ago as the 1990s its government responded to a wave of Islamist violence by declaring the aim of bringing every mosque under full state control. The goal was never met, and by the time of the July 2013 army coup that toppled an elected government led by the Muslim Brotherhood, barely half of the preachers in the country's 100,000-plus mosques were vetted or salaried by the state. The wide-scale infiltration of religious institutions by the Brotherhood and more radical groups markedly boosted their social standing and political influence.

Egypt's government has of late clamped unprecedented controls. In January it decreed that all Friday sermons must adhere to a weekly theme set by the religious-affairs ministry, establishing a hotline to allow worshippers to denounce preachers daring to voice political dissent. Further decrees required all preachers to be government-licensed, imposed a code of ethics forbidding discussion of politics in mosques, and banned smaller prayer halls from holding Friday prayers. The ministry fired 12,000 preachers and now allows only those trained in government-approved institutes to deliver sermons.

As a foil to the powerful Brotherhood, the state had long allowed followers of quietist forms of Salafism to run some 7,000 mosques. But the ministry in September decreed it would take over their mosques too, after reports of a sermon forbidding the faithful from buying interest-bearing government bonds.

Amr Ezzat, an Egyptian researcher, sees the effort to impose state-ordained orthodoxy as misguided and possibly dangerous. Religious institutions will lose legitimacy with time, pushing more Muslims towards radical margins. And by acting in effect as the imam, the state takes upon itself a duty to enforce morality. It is perhaps as a sop to religious conservatives, for instance, that Egyptian authorities have mounted an increasingly lurid campaign against homosexuality, most recently by staging a midnight raid on a Cairo bathhouse on national television, dragging a score of naked men to prison. ■



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Greece's crisis

Samaras's gamble

ATHENS

An early presidential vote could spell trouble for Greece's government—and for the future of the euro

A GREEK presidential election is not supposed to make headlines. The ruling party's candidate, typically a low-key retired politician, normally wins the required three-fifths majority after a three-round vote in parliament. In the 40 years since Greece replaced its monarchy with a republic led by a figurehead president, no big political upset has occurred. This time it could be different.

Antonis Samaras (pictured), the centre-right prime minister, has called a snap presidential election for December 17th, two months before Karolos Papoulias, the 85-year-old incumbent, steps down. This is at best a risky gamble. Sensing that political instability might rekindle the euro crisis, financial markets panicked. Prices on the Athens stockmarket plunged by almost 13% the day after the presidential vote was announced; yields on Greek ten-year bonds soared above 8% (see chart).

Mr Samaras said he was bringing the presidential vote forward to restore political stability, which he claimed was being undermined by persistent demands from the far-left Syriza party, led by Alexis Tsipras, a radical populist, for an early general election. Since it came first in the European elections in May, Syriza has kept a strong lead over Mr Samaras's New Democracy (ND) party in the opinion polls. Yet if Mr Samaras's candidate for the presidency, Stavros Dimas, a former European environment commissioner, fails to win 180 out of 300 votes in the final round, Mr Tsipras will get his way, as an early general election must then be held.

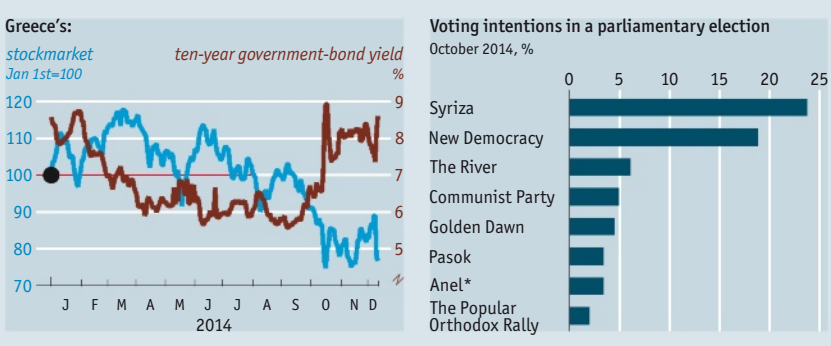
Mr Tsipras, a hero of Europe's far left, pledges to restore the minimum wage to its pre-crisis level, to provide free electricity and food to destitute families, and to reduce unemployment by hiring more civil servants. His promises resonate with austerity-hit Greeks, though it is unclear how a Syriza government would finance such expansive policies. Nor is it evident how they can be made compatible with Greece's euro membership.

Mr Samaras has already lost another bet. His plan to end Greece's four-year €230 billion ($284 billion) bail-out this month and to resume borrowing abroad without a precautionary safety net of credit from the European Union and the IMF collapsed when markets reacted badly, briefly pushing yields on Greek ten-year bonds above 9%. On December 8th Greece accepted a two-month extension of its bail-out to give it time to complete negotiations on more reforms, including pension cuts and tax increases, with the unpopular "troika" of monitors from the European Commission, the European Central Bank and the IMF. These would be the conditions for getting a fresh line of credit that would help to allay fears of a default if Syriza were ever to come to power.

The presidential vote is a bigger gamble. If Mr Dimas is rejected, the opinion polls suggest that New Democracy would lose the subsequent election to Syriza, while its junior partner in the governing coalition, the PanHellenic Socialist Movement (Pasok), might only barely scrape into parliament. Yet Syriza might not win an outright majority, raising the prospect of prolonged political uncertainty that could lead to even more market jitters.

Mr Samaras, a skilful tactician, has his work cut out. The coalition controls 155 parliamentary votes and can count on another 12 from the 24 independents who have left ND or Pasok in protest against different ▸▸

Troubled times



Sources: Thomson Reuters; Metron Analysis

*Independent Greeks Party

austerity measures. Another half-dozen independents could probably be persuaded to back the government. Getting the remaining seven votes would mean persuading lawmakers to defect from Independent Greeks (Anel), a fractious right-wing splinter group, or Democratic Left, a moderate leftist party that pulled out of the coalition last year when Mr Samaras high-handedly shut the state broadcaster without any discussion.

The incentive to break ranks and back the government will be strong: the independents might well lose their seats at the next election, while both Anel and Democratic Left could fall below the 3% threshold for entering parliament. It will be a tense Christmas holiday period: since Mr Dimas has no chance of winning the 200 votes needed in the first and second rounds, the deciding third ballot will take place on December 29th.

Greece's creditors and allies are watching nervously, from Berlin to Brussels. Some think that by calling an election that his candidate will struggle to win, Mr Samaras has already thrown in the towel. But Pierre Moscovici, the EU's economics commissioner, sounded a note of encouragement, saying he believed that Mr Samaras's gamble meant he was confident that his man would become president. ■

Russia and Ukraine

Putin's people

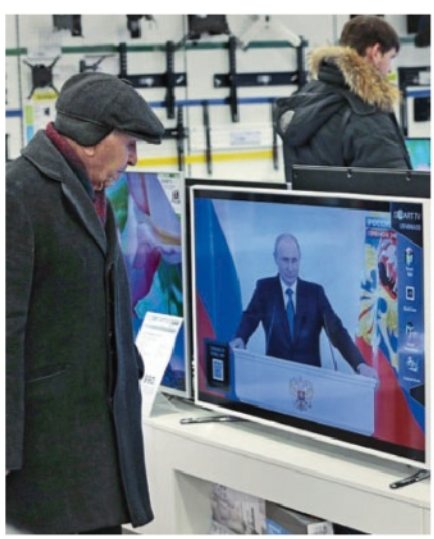
MOSCOW

The president remains popular for his Ukrainian adventure, but that could change faster than many expect

A GOVERNMENT television channel dubbed Vladimir Putin's latest state of the nation address "A Message from Above". Dmitry Kiselev, Mr Putin's chief propagandist, even likened it to speeches by Roosevelt, Churchill and De Gaulle.

Mr Putin's sermon had both messianic and defensive overtones. He called Crimea a sacred place, rather like the Temple Mount in Jerusalem. "It was in Crimea, in the ancient city of Chersonesus or Korsun, that Grand Prince Vladimir was baptised before bringing Christianity to Rus…this allows us to say that Crimea and Sevastopol have invaluable civilisational and even sacred importance for Russia. And this is how we will think of it—from now and forever." Andrei Kuraev, a Russian Orthodox deacon, noted in his blog that, although Mr Putin's statement had little basis in religion, it resembled Mussolini's 1930s assertion that "Ethiopia, from now and forever, belongs to Italy which has become what it was during the time of Julius Caesar."

In fact, remarkably few Russians are even aware of Vladimir's baptism in Crimea. For them the peninsula is linked to hedonism rather than spirituality. It was a place for holidays, summer romances, state sanatoriums and dachas. It is also at the heart of Russia's post-imperial nostalgia, and it was to this that Mr Putin was appealing. Soviet ideology proclaimed a Utopian future; modern Russian ideology focuses on the past. But the key ingredient of confrontation with America remains the same. In his speech Mr Putin cast it as part of an existential struggle for Russia's survival as a sovereign state, likening the West to Hitler who "set out to destroy Russia and push us back beyond the Urals".



Watching from below

Western sanctions, Mr Putin insisted, were a result not of his meddling in Ukraine, but of America's desire to weaken Russia: "If none of that [ie, Ukraine] had ever happened, they would have come up with some other excuse to try to contain Russia's growing capabilities." He blamed the West for supporting Chechen insurgents who launched an attack on Grozny on the eve of his speech. Russia, in this narrative, is not an aggressor but a victim and defender of its interests and values against America, which staged a coup in Ukraine in hopes of placing missile defences there. Had Russia not moved into Crimea, it would have become a military base for America.

The main reason why people believe propaganda is because it resonates with their own feelings. As Mikhail Yampolsky, a cultural historian, argues, the dominant feeling, exploited and fuelled by the Kremlin, is of resentment: a sense of jealousy and hostility. People who are deprived of any say in their own fate turn their resentment on an imagined enemy, be it Ukrainian "fascists" or American imperialists.

Yet, just as with Soviet propaganda, which blamed outside enemies for the country's failures, resentment is vulnerable to reality. When television pictures contradict people's personal experience, they stop working. "You can't really 'sell' anything to people, that they don't wish to buy," says one television boss. As the ratings show, Russians are tiring of news about Western aggression. "People now want to watch melodramas and fairy tales," says the TV boss.

What most Russians really need is news about the unfolding economic crisis that Mr Putin's message from above largely ignored. The continuing fall in the rouble, eroding living standards and a sharp rise in food prices are worrying people far more than the fate of separatists in Ukraine. Now that sanctions are starting to bite, enthusiasm for war and isolation is diminishing fast. "Cognitive consonance between propaganda and people's self-feel does not withstand external shocks," says Mikhail Dmitriev, head of New Economic Growth, a think-tank.

Over the past nine months opinion polls find that support for the presence of Russian troops in Ukraine have fallen from 74% to 23%. Many who dismissed Western sanctions as irrelevant now fret over Russia's isolation. "The sanctions are working," says Lev Gudkov, head of the Levada Centre, an independent pollster. The consumers who have emerged in Russia's big cities in the past decade are "not prepared to tighten their belts," he adds. This does not mean that such people are prepared to sacrifice their consumption for civic freedoms, either.

Despite growing anxiety about living standards, Mr Putin's popularity rating remains at record levels. Yet, as the street protests in 2011 showed, this could change quickly. Polls show that the overall view of the state as corrupt and uninterested in the people remains as strong as ever. Mr Putin is aware of the dangers. To sustain his position, he needs the West to start lifting sanctions so as to induce more economic growth in Russia, but he also has to keep up the appearance of an enemy both within and outside. To achieve this Mr Putin might yet surrender the east of Ukraine while keeping Crimea. Novorossiya, an historic term that Mr Putin invoked to justify Russia's intervention in south-east Ukraine, was notably absent from his state of the nation speech. He is also hoping that he can entice businesses to invest more in Russia

without any political liberalisation.

Less than a week after his speech, in which Mr Putin proclaimed "freedom" as a necessary condition for the country's growth, Russian civil institutions came under renewed pressure. The Moscow School of Civic Education, one of Russia's oldest NGOs, which campaigns for the rule of law, was added to the list of foreign agents. Memorial, a noted human-rights group, is under threat. And Andrei Sakharov's centre is being harassed. Yet while this will further undermine civil society, it is unlikely to compensate most Russians for their declining incomes.

So far, it seems, Mr Putin's preferred method of dealing with Russia's crisis is to talk the country out of it. His message from above was meant to persuade the people and the elite that nothing terrible is happening and that Russia can weather both the West's sanctions and falling oil prices. Yet Mr Putin looked tired and anxious, betraying a lack of confidence. It was a sharp contrast with his question and answer session of four year ago, when a young Russian from Tyumen, an oil town in Siberia, asked him: "Is it true you are blessed with luck?" "Yes," Mr Putin answered confidently at the time. ■

Danish politics

Reticent populists

COPENHAGEN

The far right may be more popular by staying out of government

POPULISM is on a roll in Scandinavia. Norway's Progress Party has helped to rule the country since its general election in 2013. Next door, the Sweden Democrats increased their representation in parliament with almost 13% of the vote in an election three months ago. Now, if a recent opinion poll is to be believed, the Danish People's Party (DPP) has become the most popular in Denmark, a nose ahead of both the Social Democrats, who head the current government, and the centre-right Liberals, who led the previous one. Megafon, a pollster, puts the DPP at 21.2%, the Liberals at 20.9% and the Social Democrats at 19.8%.

The three far-right Scandinavian parties have much in common: a deep-rooted suspicion of immigrants and of the European Union (EU); a taste for old-fashioned law and order; and a fondness for patriotic symbols. Yet their fates are unfolding in quite different ways.

Norway's Progress Party has lost ground since it joined government, as voters have become disenchanted by its failure to honour its election promises. The Sweden Democrats' triumphant march into parliament has been followed by the harsh reality that their seats will not bring influence over the government so long as the other parties continue to shun them. This impasse has just triggered another Swedish election, due in March. Though the polls suggest the party is rising in popularity, its prospects remain uncertain.

The Danish right-wingers seem reluctant to join a coalition government. A general election could be held any time between now and September next year, most likely in March. Helle Thorning-Schmidt, the incumbent prime minister and leader of the Social Democrats, has long trailed in the opinion polls, only occasionally edging ahead of her Liberal rival, Lars Lokke Rasmussen, especially when he was pilloried for his travel expenses.

Although the DPP and its capable new leader, Kristian Thulesen Dahl, may be



Helle, facing demons at home

Organised crime in Italy

Mafia in the middle

ROME

Italian mobsters have spread from the south northward

IN THE crime movie "The Italian Job" Charlie, played by Michael Caine, upsets a mafia boss by trespassing on his turf to steal gold. The plot is entertaining, but absurd: the film is set in Turin in 1969, when organised crime in Italy was confined to the downtrodden south.

No longer. On December 10th police arrested 61 people in an operation against the 'Ndrangheta, the mafia from Calabria, the toe of Italy. Such dragnets are common. But this one was launched from Perugia, the capital of Umbria, a region famed for beautiful hilltop towns and Renaissance art—not for mobsters.

Operation Fourth Step was the most startling sign yet of the pervasiveness of Italy's traditional mafias. Police found evidence that Calabrian gangsters settled in Umbria had planned a murder and violently intimidated shopkeepers, builders and others.

Of all Italy's main organised-crime groups, the 'Ndrangheta has the deepest roots outside the south. A six-year investigation culminating in 2010 found that its presence in the industrial north was extensive. More than 150 people were arrested.

There are two causes of the spread of Italy's mafias. One is that richer parts of the country offer more possibilities for laundering the proceeds of crime. The other is a 1956 law that allowed *mafiosi* to be uprooted from their normal surroundings and sent north. In Umbria investigators point to a third factor: two high-security prisons, which mean that relatives of jailed mobsters have bought houses in the area so they can visit their loved ones more easily.

Operation Fourth Step shifted attention away from another organised-crime scandal, in Rome. Arrests on December 2nd highlighted a gang that has established close links with local officials and politicians of left and right. Prosecutors call the gang, which is led by a one-eyed former far-right terrorist, Mafia Capitale. Its bosses are known to have had links with established crime syndicates. But it is unclear whether they aspired, like genuine *mafiosi*, to replace the authorities by asserting territorial control of a specific area.

What is most alarming is the ease with which they suborned officials to win contracts for firms in their sway. Among those accused of taking the gang's money are a former head of Rome's waste-management company and a former boss of a big municipal property scheme. Most skulduggery took place while Gianni Alemanno, a former neo-fascist, was mayor. But the mobsters also had good relations with several leading members from the centre-left Democratic party (PD). One was arrested.

The PD's leader (and prime minister), Matteo Renzi, has moved swiftly to limit the damage by announcing a bill to stiffen the penalties for corruption. If it survives its passage through parliament it will be a welcome step in the right direction for a country that earlier this month slipped to joint last place in the European Union in Transparency International's corruption-perceptions index.

edging ahead, they seem loth to set their cap squarely at the premiership—or even at cabinet seats. But, should he retain his popularity, he ought to have little problem getting enough support to form a centre-right coalition with the Liberals.

Yet the DPP's parliamentary history suggests otherwise. By informally backing various centre-right administrations since 2001, it has won disproportionate influence during annual budget negotiations, insisting on tighter immigration laws in return for its support. The DPP may yet think that it can wield more power by staying out of government.

Mr Thulesen Dahl has a list of conditions for reversing this position: higher public spending; even tighter immigration rules; the reintroduction of strong border controls; and the maintenance of Denmark's opt-outs from the 1992 Maastricht treaty, which heralded a more integrated EU. Since none of this is acceptable to the Liberals, the prospect of the DPP joining a centre-right coalition is dim. Although the Social Democrats' economic record has been unimpressive and Ms Thorning-Schmidt is often written off as a spent force, she may yet keep her job if the DPP insists on playing the underdog. ■

German universities

Between great and so-so

BERLIN

Not in the elite but improving, German universities bet on a middle way

A GLANCE at the global rankings of universities suggests that nothing much has changed in recent years. MIT, Stanford, Cambridge, Oxford and a few other English-speaking campuses remain at the top, fighting it out with large endowments, celebrity professors and selective entry. By contrast, universities in Germany are nowhere near the top, even after several reforms, including an "excellence initiative" since 2005. Many students waste away in overflow rooms next to packed and stuffy lecture halls. Their best hope of seeing professors is through opera glasses.

But look more closely at the rankings, and change is more evident, thinks Günther Zupanc, a biology professor who has taught in Germany, Britain and Canada and is now at Boston's Northeastern University. Only a couple of German universities make it into the top 50: Heidelberg's Ruprecht-Karls-University and Munich's Ludwig-Maximilians-University usually lead the pack. Among the top 200, however, German universities have improved the most. Taken together, they have moved up by 250 places, Mr Zupanc calculates. Only Dutch universities have done better. America's, by contrast, have crashed: since 2011 they have collectively moved down by 692 places.

If this trend continues, Mr Zupanc suggests, it could amount to a German *Mittelweg* (middle path) in higher education. At one extreme of the spectrum stand the Anglo-Saxons, who breed elite universities that most students either cannot get into or cannot pay for, but do less to nurture those lower in the rankings. At the other are socialist systems which make higher education free and access easy, at the cost of less differentiation among universities and overall mediocrity.

Germany has tried both ends of this spectrum. In 1810 Wilhelm von Humboldt, a Prussian son of the enlightenment, founded the University of Berlin (now Humboldt University) on the then-revolutionary premise that professors and students should be partners in learning and that teaching and research were inseparable. His philosophy influenced university systems from America to Japan. And it led to more than a century of excellence at German universities, which for many years were the best in the world and produced thinkers from Hegel to Planck. This golden age was destroyed by the Nazis.

After 1945, West German universities revived the stuffy bits but without the excellence. Only the idolising of titles survived: even outside academia, Germans insist on being addressed with the full mouthful of "Herr Professor Doktor". In the 1960s German students rebelled in vain. One slogan was "under the robes, the musty stink of 1,000 years".

With the country's first Social Democratic government in 1969, the emphasis shifted to widening access across social classes. Until a court ruling in 2005, German universities—which, like schools, are run by the states—were not allowed to charge tuition fees. Since then, seven states (all in the old West Germany) have tried, but all have given up after howls of outrage. The final holdouts, Bavaria and Lower Saxony, have recently dropped fees.

But Germany knows that higher education needs to improve. One push has, since 1999, come from the European Union's Bologna process, which has made the German system more compatible internationally, replacing traditional degrees with bachelors' and masters'. Germany has also allowed private universities and specialised colleges for engineers or business, with courses in English.

Their success has been limited, however. The idea that alumni should donate money to their alma maters remains anathema. The assumption is that education is the government's business and should cost nothing. Only 6% of students go to private colleges.

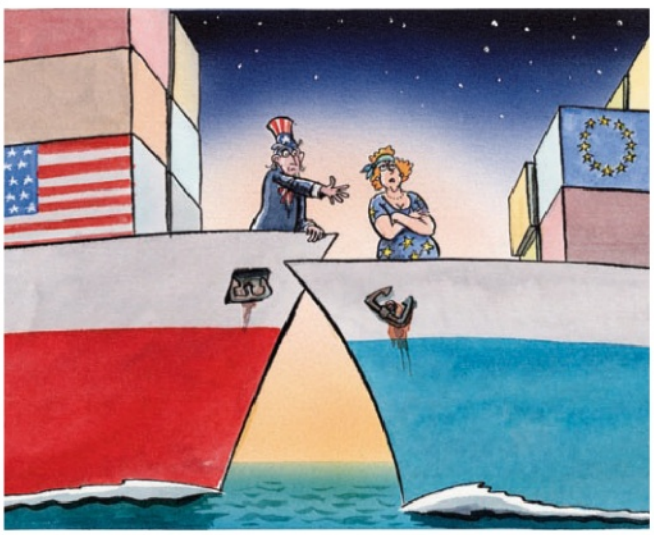
Even so, some progress has been made. The federal government and a research foundation have given money to 30 promising universities known tongue-in-cheek as an Ivy League in the making. The number of foreign students in Germany has surged to 300,000, putting Germany just behind America, Britain and Australia as a destination. If you can't get into Stanford, Germany is now another option. ■



Ye olde alma mater

Charlemagne | Ships that pass in the night

A trade deal with America would be good for everybody, yet it still may not happen



LIFE for modern Europeans is marked by endless hardships, not least their inability to buy Hog Island oysters. Farmed in a bay north of San Francisco, these plump, succulent specimens rival anything in Normandy or the Languedoc. Yet there is no transatlantic trade in oysters to speak of. Why? Because of incompatible safety regimes: America tests oyster waters for bacteria while the European Union examines the molluscs themselves. Both methods are sound, but neither side recognises the other's.

The Transatlantic Trade and Investment Partnership (TTIP), an ambitious planned trade deal between America and the EU, is intended to iron out such wrinkles. Unlike classic free-trade arrangements, TTIP focuses on regulatory and other non-tariff barriers, because levies on most products traded across the Atlantic are already close to zero (exceptions include running shoes and fancy chocolate). Negotiators dream of a world in which pharmaceuticals are subject to the same testing regimes, standards on everything from car design to chemical labelling are harmonised or mutually recognised, and the transatlantic oyster trade is finally liberated. The potential benefits are hard to estimate, but one reasonable guess is that an "ambitious" TTIP could raise America's GDP by 0.4% and the EU's by slightly more.

That would be a welcome boost to Europe's austerity-choked economies and sluggish global trade (see page 71). It involves neither the political agony of structural reforms nor more public spending. TTIP could also ensure that Europe and America, which account for half of global output, set standards that the rest of the world then has to follow. Officials add that it would cement the transatlantic relationship just as Europeans are getting twitchy about Russia: some speak of an "economic NATO". This matters especially for east Europeans who have been unnerved by Barack Obama's strategic "pivot" towards Asia.

And yet TTIP is floundering. Little has been achieved in the 18 months since talks began, and the two sides have sniped at each other for ring-fencing favoured sectors. Delay is not unusual—the EU's new trade deal with Canada took five years to sew up, a change of the guard has consumed Brussels for months and America has just had mid-term elections. This week Cecilia Malmstrom, the new trade commissioner, was all smiles as she visited Washington, DC, promising a "fresh start". Trade, she notes, is one of the few areas where the Republican-controlled Congress might offer Mr Obama its co-operation.

The difficulty is that many Europeans would prefer a clean kill to a fresh start. TTIP, cry naysayers, is a Trojan horse that will allow American multinationals to undercut tough European standards that their lobbyists have failed to overturn, or to buy up Britain's National Health Service. Surprisingly, opposition is strongest in Germany, not previously a bastion of anti-trade activists. For much of the year it has focused on *Chlorhühnchen* (chlorine-soaked chicken), an example of the horrors that TTIP's opponents say would be forced down European throats if doors were opened to American products. Chancellor Angela Merkel insists they should not worry. More recently critics have concentrated on the "investor-state dispute settlement" (ISDS) process, a provision to allow foreign investors to seek arbitration and compensation in the event of expropriation or other governmental misdeeds. Lurking behind all this, say some, is the revival of atavistic anti-Americanism on the German left, spurred in part by revelations that American spies have tapped Mrs Merkel's phone.

European officials shrug off these teething troubles. TTIP may be the most ambitious trade deal in the EU's history; little wonder it rubs some up the wrong way. But privately there is frustration at the turn the discussions have taken. The strength of feeling over ISDS has forced the EU temporarily to remove it from the talks while it works out how to proceed. Officials say it is possible to reform the process, perhaps introducing an appeal mechanism and protections against frivolous lawsuits, without killing the deal.

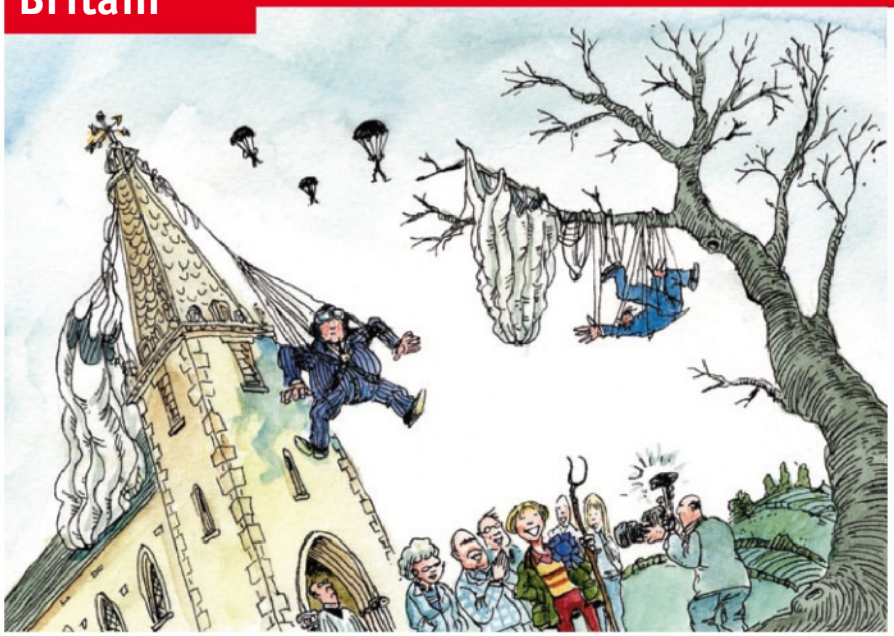
But there is worry on the American side. TTIP is less of a priority for the Obama administration than the Trans-Pacific Partnership, a free-trade deal it is pursuing with 11 Asian-Pacific countries. Officials say they are capable of conducting two sets of talks at the same time. But the more Europe drags its feet, the more some will ask if American energies would be better deployed elsewhere. "Quite frankly, we're puzzled why Europe isn't gagging for this," says one American official. A failure to deliver TTIP could also feed adversely into a putative British EU referendum, since those arguing for "Brexit" often claim that Britain on its own would find it easier to strike trade deals with America.

Malmstrom vs the chlorinated chickens

There are signs of a thaw. Last month Sigmar Gabriel, leader of Germany's Social Democrats and Mrs Merkel's vice-chancellor, announced his support for the Canadian deal, just two months after saying he could not defend its ISDS provisions. Mrs Merkel herself has become more vocal in her support. American officials say the debate has calmed in recent weeks. They speak warmly of Mrs Malmstrom, and are enthused over Frans Timmermans, a Dutch commissioner seeking to sort out the ISDS issue.

Yet TTIP's supporters still struggle to make a positive case, forced instead to battle *Chlorhühnchen* and other myths. Unlike most previous EU trade deals, TTIP may have to be ratified by national parliaments (as well as the European one), so political critics cannot be ignored. One American cheerleader for the deal says he has learned not to promise Europeans that it will provide jobs and growth; nobody believes this. More effective is a piece of flattery: that TTIP is essentially an extension of the EU's single market to a friendly partner. Supporters might try mentioning oysters, too, for TTIP needs all the help it can get. ■

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Politics

No more parachuting in

Ever more MPs have deep roots in the places they represent. That presents the political system with a challenge

ON CHILLY winter evenings Sarah Sackman and her supporters push leaflets through letterboxes informing residents that she grew up "playing in Golders Hill Park and watching films at the Phoenix". The Labour Party candidate for Finchley and Golders Green also describes this slice of north London, which she hopes to represent in Parliament after next year's general election, in one word: "home". The emphasis is deliberate, she explains: being local helps to break down the suspicion with which voters can view politicians. The sitting MP has lived nearby for over two decades. Even here in Britain's churning, cosmopolitan capital city, an outsider would be at a disadvantage.

Voters increasingly want MPs with deep local roots, who were born and raised in their constituency or have lived there for many years. This might sound unremarkable, yet it signifies an important shift in the way that Britons view representation and the responsibilities of government. The shift is putting great strain on the Westminster system, which rests on an assumption that, while it is important that MPs be somewhat responsive to the needs of their constituents, their overriding duty is obedience to party bosses. As these allegiances switch places, the prospects of stable, decisive government shrink—and those of political deadlock grow.

The old ways lasted for many decades. Margaret Thatcher represented Finchley despite coming from Lincolnshire and living in Chelsea, on the other side of London. In his autobiography Roy Jenkins, a former home secretary, recalls arriving in Glasgow in 1982 to contest a by-election. He wrote that its towers looked "as mysterious to me as the minarets of Constantinople" to the invading Russian forces in 1878.

But according to Michael Rush of the University of Exeter the proportion of MPs with pre-existing connections to their seats rose from 25% in 1979 to 45% in 1997. Using similar criteria, Ralph Scott of Demos, a think-tank, calculates that 63% are now local. The trend is cross-party, he adds: up from 30% in the Conservative Party intake of 1997 to 65% in 2010, and from 69% to 75% in Labour. Next year's election will likely extend it, observes Mark Wallace of ConservativeHome, a Tory website that monitors candidate selections.

Why? According to pollsters at Ipsos MORI trust in "MPs in general" has declined (partly because of Westminster scandals like revelations of expenses abuses) but trust in "my local MP" has risen over the past decade. Last year Philip Cowley and Rosie Campbell, two political scientists, commissioned polling from YouGov in which respondents were given descriptions of two candidates and asked to choose between them. Telling respondents that "George" had moved to the area only two years earlier added 12 points to the lead of "John", his rival. Telling them that George lived 120 miles away added 30. In response, non-local candidates should "become local", says one recently landed Liberal Democrat parachutist. This takes time and money; according to the latest figures from ConservativeHome, the average Tory candidate sheds £34,392 ($53,700) during an election campaign. One Labour candidate spends six hours a day commuting between her job in London and the marginal seat she is contesting.

The rise of local and faux-local candidacies appears to be shifting politicians' loyalties from party to constituency. It is now common for leaflets to make few references to a candidate's political hue or party leader: in a letter to voters before the Rochester and Strood by-election last month, the Tory contender used green (rather than Conservative blue) borders and made no mention of her party's name. Social media make it even easier for candidates like her to communicate directly with constituents: building their own brand, rather than relying on national political labels.

Local girl done good

There is cause to welcome this development. It produces MPs who are independent-minded and loyal to their constituents. In Ireland research shows that even where candidates live within a constituency can affect results. Evidence from Australia suggests that people there are more likely to vote for a candidate the longer he has lived in a seat.

But the trend has a bigger downside for Britain than it does for other countries. Its first-past-the-post elections are designed to create big parliamentary parties encompassing wide ranges of views. The largest forms the executive; its leader becomes prime minister. The system's ability to deliver cohesive, effective government thus depends on legislators' allegiance to party ▸▸

leaders and whips. As that slips, the machine is creaking. The current cohort of MPs has rebelled more than any before. Polls suggest that the next government may have a tiny majority; to achieve much it will need discipline. In a parliament of local champions (and assertive smaller parties—see Bagehot), it is unlikely to get it.

Britain can have stable, traditional government from Westminster, or it can have independent-minded local MPs who are loyal to their constituencies above all else. It cannot have both. Two reforms could help bridge the gap: the introduction of proportional representation (PR) and the devolution of power from Westminster to local regions. But although Britons like local candidates, in referendums they have rejected PR, regional assemblies and elected mayoralties. Eventually, something will have to give. ■

Christianity in Northern Ireland

The devil you know

BELFAST

Catholics and Protestants make common cause against secularism

SOMETHING has changed in Northern Ireland when the historically Protestant Democratic Unionist Party (DUP)—founded by the late Ian Paisley—goes in to bat for the province's Catholic bishops. Could it be that sectarian rivals, taking their cue from Catholics and evangelicals in America in the 1990s, now find common cause on moral issues that trump old divisions?

The issue resurfaced on December 4th when the Catholic bishops withdrew support for a church-rooted adoption agency, the Family Care Society, which claims to be the region's leading finder of homes for hard-to-place children. The decision followed a series of judicial rulings saying the agency, like its counterparts elsewhere in Britain, must consider same-sex couples as adoptive parents on the same basis as heterosexual ones.

That affair was one of the two reasons cited by Paul Givan, a young DUP politician, for proposing to amend Northern Ireland's equality legislation with a "conscience clause" allowing organisations and firms to refuse services if doing so would offend their religious beliefs. The other trigger was the case of a bakery, called Ashers, on the outskirts of Belfast that is facing legal action from the Equality Commission, a government agency, because its evangelical owners declined an order to make a cake with the words "Support Gay Marriage".

Mr Givan said that, in seeking to distinguish between selling goods, which should be offered to all, and providing services, which might raise issues of conscience, he was acting as a friend to all religious groups. As with the bakery, he said, "The Catholic church should not have to act in violation of its deeply held beliefs."

A Belfast gay-rights campaign, the Rainbow Project, expressed horror at the proposal; it could, the group argued, entitle a restaurant to deny a table, or a hotelier to refuse a room to a same-sex couple because they could argue that saying yes would facilitate homosexual relations.

Traditionalist Ulster Catholics are in a dilemma. Sinn Fein, the DUP's partner in a shaky power-sharing deal and the party for which most Catholics vote, is pro-gay marriage and favours liberalising abortion laws; it has pledged to block Mr Givan's move. The other nationalist party, the SDLP, is more conservative on abortion but broadly approves same-sex unions. So should Catholic traditionalists vote for the DUP, even though Paisley once called the pope "the scarlet woman of Rome"? Senior DUP leaders, who resist change to a restrictive abortion regime, say their party is a logical choice for faithful Catholics.

Father Tim Bartlett, a Catholic spokesman, insists that the church will never tell people how to vote; but it does urge the faithful to assess the parties' stance on moral matters. For Catholics, he adds, the issues of abortion and gay marriage might now be "of a higher order" than the old quarrel over flags which has been "parked" by the peace process. At least this much is true: even in devout Northern Ireland, secularism's advance is driving all sorts of Christians together. Organising an inter-denominational carol service is much easier than it used to be. ■

House of Lords

A tizz about fizz

Peers of the realm resist changes to the quality of their champagne

EVEN by British standards, it has been a busy few weeks for observers of class warfare. On November 27th a former Conservative minister lost a libel action against a newspaper that said he had called a policeman at 10 Downing Street a "pleb". A few days before, another was recorded calling a taxi driver a "smart-arsed little git" and telling him to get a better education. But these incidents pale beside the tale of the peers' champagne.

On December 2nd, at what otherwise might have been a dull committee meeting, Sir Malcolm Jack, a former clerk of the Commons, was asked why the catering services of the House of Lords, the upper house, and the House of Commons could not have been merged to save money. He replied: "The lords feared that the quality of champagne would not be as good if they chose a joint service." The astonished chair of the committee, Jack Straw, spoke for most of the nation as he gasped: "Did you make that up?" Sir Malcolm assured him he did not.

The national welfare budget has been cut and the number of people using free food banks has risen sharply in the past year. So the fact that the House of Lords has a champagne budget at all has caused some eye-rolling. According to *The Guardian* newspaper, the upper house has spent £265,770 on 17,000 bottles of the stuff since the Conservative-Liberal Democrat coalition government took office in 2010—enough for five bottles of bubbly per peer per year.

The fact that their lordships might not want to choose from the same wine list as the plebs in the Commons has raised the question again for some as to why Britain still has an unelected upper house. Tony Blair half-reformed it, getting rid of most hereditary peers. But attempts to continue the changes by the coalition government were blocked by Tory traditionalists in 2012. The Lords can still block and delay government legislation, yet most are now political appointees. And all can claim a £300 daily allowance just by showing up.

As for their drinking habits, a columnist in *The Independent* newspaper had a suggestion: just add fizzy lemonade to a bottle of cheap German plonk. "After the first three glasses you can't tell the difference anyway."



Bolly or Moët?

Bagehot | Nats, wha hae

The Scottish nationalists lost September's independence referendum. You wouldn't know it



"WE'RE supposed to have lost the referendum but look at us now!" yells Sandra White, a Scottish National Party (SNP) politician. Bagehot was already gazing in wonder. On a dreich weekday night, the community hall Ms White is addressing in Kelvin, central Glasgow, is packed with SNP members. Young and old, brown and white, they bubble with nationalist verve and eagerness to get door-knocking and leafleting. A show of hands suggests most have joined the party since that black day, September 18th, which was supposed to have laid the nationalist cause to rest "for a generation", in the words of the party's then leader, Alex Salmond. Back then—ten weeks ago—the SNP's Kelvin branch had 310 members; now it has 1,734. Amazingly, this dramatic five-fold increase is being replicated across Scotland.

On referendum day, the SNP had 22,000 members; now it has 95,000. Almost 4,000 signed up on November 22nd during a televised rally for Mr Salmond's successor, Nicola Sturgeon, which was attended by 12,000 people. The SNP is now Britain's third biggest party, more than twice the size of the Liberal Democrats, the next biggest, whose thinning ranks are more typical of British parties. Next in its sights are the ruling Conservatives, whose membership, currently around 130,000, has fallen by half in less than a decade. What are its followers imbibing?

Hope for a better future, conviction that the nats can deliver it, and an aching for the sense of purpose and belonging that many found in the separatist campaign. This is what unites the SNP newbies in Kelvin. Many are recent defectors from other parties, such as Suzanne, a former member of the Labour Party, who rebranded her central Glasgow pub the "Yes Bar" during the referendum campaign and is now looking for an SNP ticket for next year's general election. Or Tommy, a 21-year-old student and former Lib Dem supporter, who had not considered voting SNP before the "brilliant and invigorating" referendum campaign. "It was a real comedown when it ended," he laments.

In a time of dying parties, a fracturing electorate and falling turnout—especially among younger British voters, who are about as likely to bungee jump off the Clifton suspension bridge as join the Tories—Scotland's referendum turns out to have been democratic catnip. Scots have historically voted less in general elections than the British average; the percentage who say they will definitely vote next year is, at 60%, ten points above it—apparently due to surging support for the SNP. On current polling, this would give the separatists most of Scotland's 59 seats—41 of which are held by Labour—and make it the third biggest party in Westminster. No wonder nobody talks of its struggle being mothballed these days. An SNP worthy in Kelvin made so bold as to suggest Mr Salmond's pledge had in fact been honoured, a political generation having passed when Ms Sturgeon succeeded him.

A shoo-in for the Aberdeenshire—currently Lib Dem—seat of Gordon, the former SNP leader will lead the assault on Westminster. As one of Britain's most charismatic and divisive politicians ("He's Marmite," Scots say, "You love him or hate him"), Mr Salmond has sworn to "rumble up" Westminster and secure "real power for Scotland". That means he plans to be as obstructive as it takes on any non-Scottish issue to wield maximum influence on Scottish ones. Given the existing difficulty of passing legislation—because of the failure, which is likely to endure, of either the Tories or Labour to command a majority—this is a dire prospect for a system whose frailties Mr Salmond has a record of turning to his advantage. His campaign was fuelled as much by anti-Westminster as by nationalist sentiment; this is another reason to suggest the SNP means to play the wrecker.

Yet it also shows why the allure of nationalism, which British, especially Labour, politicians have serially underestimated, is an inadequate explanation for the party's rise. The fundamental difference between the Yes and No campaigns was that the former offered a positive and dynamic vision of Scotland's future, while the latter, after much head scratching, promised more of a dreary status quo. This was not all the unionists' fault. The separatist promise of, to quote Suzanne of the Yes Bar, "fairness, a better society, no more cuts, no more poverty", was fanciful. The No campaign, whose more realistic prognostications were inevitably dull by comparison, was also rendered more negative, monochrome and risk-averse than it would otherwise have been by its cross-party design. But, those caveats admitted, the failure of mainstream British politicians to offer a compelling vision to set against the populists' is also fundamental and, as long as they cannot rectify this, it condemns them to further decline.

Boney, blotchy and covered in hair

It would help if they would stop running down Britain's present. This is partly a consequence of their convergence in the centre, which makes it hard for voters to distinguish between them, even as they continue to knock lumps out of each other's records. The result is an exaggeratedly gloomy view of a country whose staid future largely reflects the fact that it is already pretty rich and successful. A more optimistic take on Britain's present would be a useful counter to the Utopians—yet insufficient. Mainstream politicians need a compelling vision of their own.

In the fag-end of the current parliament, and the round of austerity that has defined it, there are signs of them working on this. The tax cuts promised by George Osborne, the Tory chancellor, may be unaffordable; but at least they provide the beginnings of a rationale for the smaller state he wants. By contrast, Ed Miliband, the Labour leader, sees a bigger, probably also unaffordable, state as the answer to most of the deficiencies he claims to encounter daily. These are starting points. But for anxious voters in Scotland and elsewhere, semi-beguiled by populist fantasies, such half-ventured notions are not visions. They are the gapings of spilt goldfish, gasping for air. ■



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World Health Organisation

Too big to ail

GENEVA

Ebola has laid bare the failings of the world's health authority

PERCHED on a hill in Geneva above the city's cluster of international agencies, the modernist headquarters of the World Health Organisation (WHO, pictured above) seems a manifestation of the organisation's grand mission: to lead the world on health. But nearby sits a stinging reminder of its shortcomings. Visitors to the WHO must first pass the headquarters of UNAIDS, which was set up separately after a widespread loss of faith in the WHO's ability to tackle the AIDS epidemic.

Two decades after that failure, many health experts fear history is repeating itself. After an outbreak of Ebola was identified in west Africa in March, the WHO's response was slow, disorganised and lacking in leadership. In September Ban Ki-moon, the UN secretary-general, set up an independent Ebola mission.

Ebola exposed weaknesses in the WHO's ability to respond to disease outbreaks. But it also highlighted deeper problems with the WHO, involving funding, structure and staff. Founded in 1948 to help all people attain "the highest possible level of health", everything from obesity to antibiotic resistance falls within its remit. But its activities cost far more than can be covered by the dues its 194 member states pay, which are calculated according to their wealth and population. These sums have not risen since the 1990s.

The gap has been filled by contributions from rich countries, philanthropic foundations, other multilateral bodies, non-governmental organisations and private interests, such as pharmaceutical firms. In the 1990s these made up around half of the WHO's budget. Now they provide nearly 80% of it. This shift makes it hard for the WHO to plan ahead and leaves it exposed to the ups and downs of the world economy. The financial crisis hit voluntary contributions. Its two-year budget for 2010-11 was nearly $5 billion; for 2014-15 it is less than $4 billion. (By comparison, America's Centres for Disease Control spent nearly $7 billion this year alone.)

The squeeze has seen the WHO continue to spend on chronic diseases and primary health care—but slash its budget for responding to disease outbreaks by half. This may have seemed reasonable: year after year, chronic disease and poor health care are bigger killers. But a rapid response to Ebola would have been far cheaper in the long run than scrambling to catch up.

Its reliance on voluntary donations means that the WHO struggles to shift funding fast—or indeed to decide how to spend a big chunk of its budget in the first place. Most donations are for specific purposes. The Bill & Melinda Gates Foundation has given money to fight malaria; Rotary International bankrolls polio eradication. Both are worthy causes, but the WHO's role has been to follow, not to lead. "The director-general is highly limited in how she can address global health challenges, given that she has very little control over the budget," says Steven Hoffman of the University of Ottawa.

Such earmarking became more common in the 1990s, when donors lost confidence in the WHO's decision-making. But the organisation has improved of late, says Nils Daulaire, a former American representative to it, by basing its budget on more realistic goals. This is part of a reform process begun in 2010. In order to wrest back the WHO's agenda, potential donors are now approached with a list of programmes that need funding. "We must have the courage to say 'no' to money if it doesn't match our priorities," says Margaret Chan, the director-general. But some doubt that will happen. "The true test will be how much does the WHO actually reject," says David Stuckler of Oxford University. "Cynically, I suspect very little."

To avoid opposition, the reforms have skirted another of the WHO's biggest problems. Under its constitution its six regional offices are largely autonomous. Their directors are chosen by, and often beholden to, local ministers of health. Some offices are treated as tools for patronage by politicians. "The director-general has very little control over the organisation's budget, human resources and work in countries, including in case of emergencies," says Peter Piot of the London School of Hygiene and Tropical Medicine.

These institutional weaknesses hampered the WHO's response to Ebola. Africa needs the strongest regional office, since its health needs are greatest, says Dr Piot. Instead it has the weakest: "particularly politicised with often incompetent people". Reports of tension between local staff and headquarters were borne out when Dr Chan eventually replaced the WHO's top officials in Guinea, Liberia and Sierra Leone, the countries hardest hit by the virus.

The WHO's technical side is meant to arm the organisation against unreasonable demands from politicians and donors, by providing solid evidence for the organisation's policies. But though it was once a world leader in health research, it is ▸▸

now considered unexceptional. Its recommendations do not always match the best available evidence, says Mr Hoffman. Where it has fallen short, others have moved in. The Institute for Health Metrics and Evaluation at Washington University, for example, was created in 2007 with money from the Gates Foundation after the WHO's statistics were found wanting.

Bureaucracy, budget cuts, political interference and tolerance for incompetence all make it hard to attract and keep good staff. There are too many "medocrats"—mediocre bureaucrats with a medical background—says Sophie Harman of Queen Mary University in London. Asked why he stays at the WHO, Pierre Formenty, one of its few Ebola experts, cannot come up with a reason. In 2012 just 0.1% of non-support staff were economists, 1.4% lawyers and 1.6% social scientists, meaning it is ill-equipped to make well-rounded arguments for its policies.

As the WHO tries to reform, and the Gates Foundation, World Bank and others encroach on its turf, many see a need for greater daring. Some have called for it to be split in two, with separate political and technical agencies. Others want its overly broad mandate slimmed down. A few want it abolished altogether. But most think it has a valuable role to play as an accountable advocate for public health, a forum for research and negotiation, and a director of health interventions. They just want it to do those things better. ■

Refugees

Rattling the tin

The rich world is being asked to do more for those fleeing Syria and Iraq

THE fighting in Syria and its spread into Iraq have created the worst refugee crisis since the second world war. Since the spring of 2011 nearly half of Syria's population has been displaced, with 7.6m of those who have had to flee staying within their homeland and 3.3m more in camps abroad. Since the UN High Commissioner for Refugees (UNHCR) reported that in 2013 the number of refugees and internally displaced people worldwide exceeded 50m for the first time since the 1940s, and rose by 6m in 2012 largely due to Syria's civil war, a further 1m Syrians and 2m Iraqis have been added to that grim total.

Dealing with Syrian refugees is now the UNHCR's largest-ever operation. It and other aid agencies are struggling to cope. The World Food Programme is warning of an impending winter hunger crisis. Earlier this month it briefly suspended a food-voucher scheme for some 1.7m Syrian refugees in neighbouring countries because it had no money to pay for it.

On December 8th the UN said it is trying to raise $16.4 billion to meet the humanitarian needs of refugees everywhere, up from the $12.9 billion it sought last year (though even this sum may not include every fundraising effort by the UN's numerous agencies). More than $7 billion of that total will be spent on those afflicted by the war in Syria. In Berlin on December 18th Germany will host a meeting of governments focused on securing the money requested for helping Syrian refugees.

So far the UNHCR has received little over half the $6 billion asked for in six previous appeals for funds since the fighting in Syria began. The amount sought is so large because the countries hosting the most people are reaching the limits of their ability to cope. Lebanon has 1.1m registered Syrian refugees, Turkey 1.2m and Jordan 620,000. Many more are unregistered.

Tellingly, the new appeal is being launched jointly by UNHCR and the UN Development Programme, meaning more of the money can be directed to building the infrastructure needed to support refugees in the longer term, from roads to schools and health-care facilities. It is increasingly clear that the current set-up for humanitarian assistance and international aid is unable to cope with refugees turning into long-term residents, especially in middle-income countries that no longer qualify for traditional development aid.

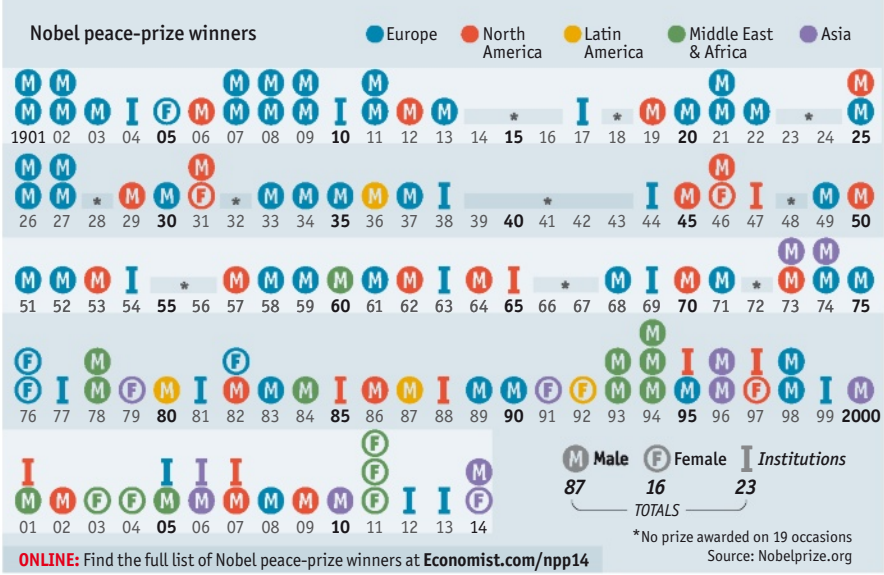
The biggest donors to help those from Syria and now Iraq so far are America, Britain and the European Union. European countries, in particular, have been criticised for pursuing a "keep them there" strategy of giving relatively generously to support refugees in and around Syria, but welcoming hardly any to live within their borders. An attempt by UNHCR to change that in Geneva on December 9th by persuading donor countries to take in larger numbers ended in disappointment, falling around 30,000 short of the agency's initial goal to find new homes for 130,000 by 2016.

That is despite Germany's willingness to set an example by taking in at least 30,000. Others, including Britain and Ireland, have taken just a handful. A far higher share were resettled after the war in Iraq that began in 2003, and there is certainly a case to be made that rich countries could be welcoming many more this time. But a growing hostility to refugees in many European countries seems to be taking its toll on the honourable humanitarian tradition of offering them a new home.

Keeping Syrian and Iraqi refugees out of Europe, if that remains the goal, will require improving the dire conditions in which many live in makeshift camps in neighbouring countries. In 2013 alone, more than 11,000 Syrians made it through Turkey and into the EU via Bulgaria. To stop many more following, European countries will need to spend heavily to give these unfortunates a good reason to stay closer to what was once home. ■

Who wins the prize

On December 10th Malala Yousafzai became the 16th woman (and, at 17, the youngest person) to receive the Nobel peace prize. She and her co-winner, Kailash Satyarthi, campaign for children's rights to be educated, and not forced into arduous labour. Pakistani and Indian respectively, they represent a welcome trend to honour people other than European and North American men. They also signal a reversal of a recent drift towards celebrating institutions rather than people. In 2013 the Organisation for the Prohibition of Chemical Weapons became the 23rd body rewarded for, arguably, just doing its job.



ONLINE: Find the full list of Nobel peace-prize winners at Economist.com/npp14



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Corporate transparency

The openness revolution

As multinationals are forced to reveal more about themselves, where should the limits of transparency lie?

HOWARD SCHULTZ, the head of Starbucks, said last year that "the currency of leadership is transparency." If so, bosses should be feeling ever more qualified to command their troops. Business is being forced to open up in a host of reporting areas, from tax and government contracts to anti-corruption and sustainability programmes. Campaigners are cock-a-hoop, but continue to demand more. Executives are starting to ask whether the revolution is in danger of going too far.

Three forces are driving change. First, governments are demanding greater corporate accountability in the wake of the global financial crisis. No longer is ending corporate secrecy—the sharp end of which is money-laundering shell companies—an agenda pushed merely by Norway and a few others; it has become a priority for the G20. Second, investigative journalists have piled in. A recent example is the exposure by the International Consortium of Investigative Journalists of sweetheart tax deals for multinationals in Luxembourg. The third factor is the growing sophistication of NGOs in this sphere, such as Transparency International (TI) and Global Witness. "Twenty years ago our work seemed an impossible dream. Now it's coming true," says Ben Elers of TI.

TI recently published its latest study on corporate reporting, which evaluated 124 big publicly listed companies, based on the clarity of their anti-corruption programmes, their corporate holdings and their financial reporting. Four-fifths of them scored less than five out of ten overall, but there were big regional disparities: seven of the ten most open firms were European; eight of the ten most clammed-up were Asian (see table on next page).

One measure on which the firms were judged was country-by-country reporting of profits, taxes paid and the like. Clearer reporting by jurisdiction would help outsiders spot offshore tax shenanigans and graft. It is seen as the "holy grail" by NGOs, says Raymond Baker of Global Financial Integrity, one of them. Currently most companies aggregate their accounts in a way that makes it hard to see what assets and revenues they have in any given country. But change is coming: country-by-country reporting is on the OECD's "Base Erosion and Profit Shifting" reform agenda, which is aimed at curbing tax avoidance.

The biggest push for greater openness has come in extractive industries. That is not surprising as these (as well as defence) have historically been pits of corruption. Progress has come at the regional level: EU states have begun to pass into law a new directive requiring country-by-country, and in some cases project-by-project, reporting of extractive groups' payments to governments. America should have introduced similar regulations by now, but these, mandated by the Dodd Frank act of 2010, are still on the drawing board.

Publish What You Pay, a campaigning group, reckons these rules would cover two-thirds of the global extractives business by value—not only Western groups, but Chinese, Russian and other firms that are caught in the net by virtue of having securities listed in the West. But there would still be bumps in the playing field: some state-owned producers from the Middle East, for instance, would not be covered.

Hence the push for global standards. One may be emerging from the Extractive Industries Transparency Initiative, whose Oslo-based secretariat oversees the development of multilateral standards shaped by a coalition of governments, companies and civil society. The EITI is voluntary, but if a country signs up, all firms operating there must comply with its reporting guidelines. Almost 50 countries (including Iraq and Nigeria) have joined.

The EITI has backing from 90 firms, among them Norway's Statoil. Its head of sustainability, Hege Marie Norheim, argues that while not disclosing project payments might be better for short-term competitiveness, disclosing them is "better for the company's long-term stability".

The costs of opacity

Commodity traders, usually a secretive bunch, are opening up to this way of thinking. Trafigura, a Swiss trading giant, recently said it will disclose oil-related payments in all EITI countries. Its reasons for doing so: change is coming anyway, and early movers will be better placed to help shape the standards. There is a financial motivation, too: banks have reduced funding for opaque trading firms after being hit with fines for sanctions violations.

Oil producers, meanwhile, are starting to publish more details of production-sharing contracts with governments. This is "good for companies because it will show how [the contracts] are weighted, which contrary to common perception is usually in the government's favour," says George ▸▸

Shades of opacity

The most and least transparent firms, 2013

Company	Country	Industry	Index*
Eni	Italy	Oil & gas	7.3
Vodafone	Britain	Telecoms	6.7
Statoil	Norway	Oil & gas	6.6
BHP Billiton	Australia	Mining	6.1
Banco Santander	Spain	Financials	6.0
Sberbank	Russia	Financials	1.5
Agricultural Bank of China	China	Financials	1.4
Bank of Communications	China	Financials	1.3
Honda	Japan	Consumer goods	1.3
Bank of China	China	Financials	1.0

Source: Transparency International *On a scale of 1-10

Cazenove of Tullow Oil. "That's why it's more often the governments than the companies that want the terms kept quiet."

Indeed, though campaigners make much noise about holding multinationals to account, most admit the bigger impact could be on the states they deal with. Publication of what governments receive will increase pressure on them to show how money is spent. They could be held even more accountable if firms were forced to disclose which of their payments go to central governments, which to regional ones and which to local administrations.

Another area of the NGOs' focus is organisational structure. The more tangled a group's web of subsidiaries, the harder it is for outsiders to follow the money, including intra-group transfers that might be used to funnel profits to tax havens.

Here, the picture is mixed. While some firms reveal more, others shuffle into the shadows. Jeffrey Gramlich of the Hoops Institute at Washington State University and Janie Whiteaker-Poe of Baylor University have identified a phenomenon they call "the disappearing subsidiary". Crunching data at *The Economist*'s request, they found a sharp increase since 2010 in the number of American firms dramatically reducing the number of tax-haven subsidiaries they disclosed (see chart). In one extreme case Google reported more than 100 divisions in 2009, but just two (both in Ireland) in 2012. "Google wants to know everything about you, but it doesn't want you to know everything about it," says Chris McTaggart of OpenCorporates, which collects and crunches data on companies.

What's going on? Use of tax havens may have fallen a bit, but that doesn't explain such a sharp decline. What does, says Mr Gramlich, is a mass redefinition of subsidiaries as not "significant". Only material holdings have to be disclosed in America (whereas in, say, Germany all have to be reported). The firms would never admit it, but the likely reason for this redefinition is increased scrutiny of their tax affairs. Their move into the dark coincided with a surge in investigative articles about profit-shifting by multinationals. Not all the redefining is likely to be legal, but the companies are willing to take the risk: the most they can be fined for de-disclosing significant subsidiaries is $100 a day.

Companies have wider gripes about the disclosure revolution. Some contend that transparency has natural limits. The argument has three planks. The first is that it can be unfair on those forced to disclose because it hands a competitive advantage to non-Western rivals that aren't held to the same standards. Simon Henry, Shell's chief financial officer, argues that EU transparency rules could undermine the EITI because they don't cover unlisted foreign firms or require governments to account for all payments received. Next, some firms complain that new transparency rules wedge them between a rock and a hard place: abiding by an EU requirement to be open, for instance, could mean breaking the law in a country of operation that forbids disclosure. The first argument underlines the need for global standards. The second is thin: when pressed, whingers struggle to identify countries that lock up executives for complying with Western disclosure requirements.

The third argument is stronger: that those trying to make sense of it will be better informed but none the wiser. Debra Valentine of Rio Tinto likens it to the long but unenlightening lists of side-effects that come with medicines. Can country-by-country reporting capture what is really going on in a group that produces in Australia and Canada, markets through Singapore and sells in China, she asks? A firm's tax payments might be unusually low, not because it is dodging tax, but because of high upfront investments and all manner of reliefs and allowances. Financial restructuring can render the numbers even harder to parse, says John Connors of Vodafone (the only firm to score half-marks or better in all categories in the TI report).

Some transparency campaigners acknowledge a risk of drowning in data or of comparing apples with oranges. Britain, for instance, now requires its companies to disclose all foreign payments to governments of more than £86,000 ($135,000)—the equivalent of an individual spending pennies. "Ludicrously granular," grumbles another oilman.

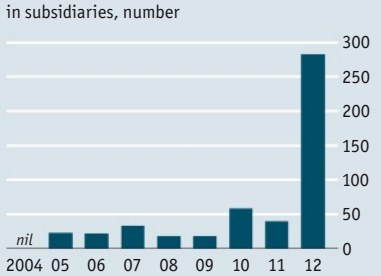
Michael Meehan of the Global Reporting Initiative, which sets standards for corporate reporting on sustainability issues, says he can see why large companies have "data fatigue". Their being forced to report every single data point would lead to less transparency, not more, he says. "Responsibility is coming back to civil society and the media to make good use of information they already have, rather than calling for more," says Jonas Moberg of the EITI.

Private transparency initiatives can help in this regard. OpenCorporates uses data-scraping and other technologies to collate information from national corporate registers and other sources, clean it up and join the dots, so that relationships within and between corporate families become clearer. It now has 80m companies from 100 countries in its database. It sometimes receives threats of violence from those who want their law-breaking firms to remain hidden, says Mr McTaggart.

Governments, too, have a role to play. The G20 has thrown its weight behind the idea of central registers, with better policing of information on corporate owners. The most ambitious countries, like Britain and Denmark, plan to make their registers publicly accessible. Some are embracing open-data standards. Britain, already a world leader in accessibility of corporate-registration information, such as financial accounts and shareholder information, will make all that data available free of charge next year.

Fading into insignificance

US companies reporting a sharp decrease* in subsidiaries, number



Source: J.Gramlich and J.Whiteaker-Poe

*Companies with 10 or more subsidiaries in tax havens that disclosed at least 50% fewer than the year before

Let it flow, or suffer a leak

As openness spreads, it would be easy to get carried away. Multinationals will continue to do dodgy deals, and to bury inconvenient financial information in the footnotes of annual reports. Some extractives giants pay lip service to the EITI while dragging their feet. The world is still full of murky shell companies.

But the direction of travel is clear. In tax and contract transparency, there is general acceptance that change is coming, like it or not. And many boards no longer fear that openness is bad for business. In some areas, such as corporate social responsibility, there is evidence that it boosts the share price by signalling that management is tackling hidden risks, says George Serafeim of Harvard Business School. Investors increasingly appreciate the reputational benefits of openness, and employees want to work for firms that are leaders in disclosure—and, just as importantly, ever more of them appear to see it as their civic duty to leak information if their employer is shady and secretive. ■

Corporate cyber-security

Horror movie

SAN FRANCISCO

Hackers shine a harsh spotlight on Sony

CRITICS who don't like a film usually pen scathing reviews of it. But "The Interview", a comedy from Sony Pictures Entertainment that includes a scene depicting the assassination of Kim Jong Un, North Korea's leader, has provoked a far more damaging response from one particular bunch of detractors. On December 8th hackers who had attacked the studio's computer systems demanded that it stop showing what they called "the movie of terrorism" to avoid further chaos.

Part of Sony, an electronics maker, which also saw its PlayStation gaming network briefly taken offline on the same day the warning was issued, Sony Pictures is the latest in a long line of firms to have been hacked this year. JPMorgan Chase, a bank, and eBay, an e-commerce giant, are among other well-known companies that have suffered breaches. But the Sony case is striking for at least two reasons.

The first is the way in which the studio's attackers, who call themselves the "Guardians of Peace", or #GOP, have behaved since cracking its digital defences in late November. Most hackers like to pinch valuable data discreetly and then scarper before being spotted. But Sony Pictures' assailants have instead taunted the studio publicly; leaked the social-security numbers of some 47,000 of its current and former employees; published sensitive financial information such as salaries; distributed copies of several yet-to-be-released films online; and posted incendiary e-mails between executives (which are now all the talk in Hollywood).

In a chilling twist, some Sony Pictures staff also received e-mails that threatened them and their families, though it is unclear whether these were sent by the original hackers or another group. As *The Economist* went to press, cybersleuths drafted in by the studio were still trying to discover who is behind the attack.

Much suspicion has focused on North Korea, which has denied responsibility, but not ruled out the possibility that the hack might be the handiwork of "supporters and sympathisers". Experts note that independent hackers who enjoy informal state backing are becoming a big problem that needs international attention. "Diplomacy to tackle cybercrime has to be a priority," says Mark Weatherford of the Chertoff Group, a consulting firm.

Protecting sensitive data should be a priority too. But the other striking thing about Sony Pictures' experience is that it has highlighted sloppy practices at an arm of a firm that should be especially careful about its security. Sony, after all, has a record of tangling with hackers. It first enraged them back in 2005 when its music division included particularly aggressive software on compact discs (remember those?) designed to frustrate folk trying to "burn" copies of them.



It wasn't me

Then in 2011 Sony sued some young hackers who had cracked the code on its PlayStation 3 gaming console so they could run any software they liked, rather than just Sony's own offerings. That triggered a reprisal from Anonymous, a hacker collective, which brought down Sony's PlayStation network for several weeks and pinched the details of some 100m accounts. The same year Lulzsec, another "hacktivist" outfit, broke into Sony Pictures' systems and pilfered account data. This wave of attacks hammered Sony's share price and led to executives being asked to explain the mess to Congress.

Given all this, one would expect Sony Pictures' internal practices to meet the gold standard of cyber-security. Yet the firm, which did not respond to repeated requests for comment, seems to have made some elementary errors, including leaving social-security numbers and salary data unencrypted, and storing passwords in a file conveniently entitled "Password".

More digital damage may yet emerge. "This hack looks like a multi-headed hydra and we may only be in the early days of it," explains Marc Goodman, a cybercrime expert. Sony Pictures will not be looking forward to any sequels. ■

Telecoms in America

On the airwaves

SAN FRANCISCO

An auction of wireless spectrum has led to a feeding frenzy

TIMES are getting tougher for America's mobile operators as they battle one another for business. On December 8th Verizon, which dominates the market together with AT&T, gave warning that its profits were being squeezed as it rolls out discounts to entice customers away from rivals. Telecoms firms are scrapping over something else too: the wireless spectrum needed to carry voice and data services.

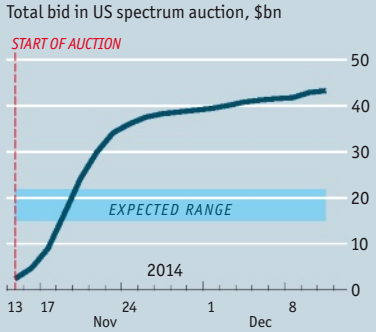
Every so often, America's Federal Communications Commission puts up airwaves for auction. The latest sale began on November 13th. Before it started, analysts took stabs at guessing how high the bidding might go, with bullish estimates coming in at $22 billion. But that amount was blown past in just a few days and bids now total a whopping $43 billion (see chart).

What explains this appetite for airwaves? Part of the answer is that the last big spectrum auction in America took place in 2008, at a time when smartphones were only just taking off. Bids totalled almost $20 billion. Since then, smartphones and tablet computers have proliferated, putting pressure on existing airwaves. "Carriers have consistently underestimated the demands on their data networks," says Spencer Kurn of New Street Research.

Then there is DISH, a satellite-TV firm that also owns a chunk of wireless spectrum. Its boss, Charlie Ergen, has long argued that investors have undervalued its airwaves. Analysts think DISH, which is involved in the bidding, has been doing its best to drive up prices so its own holdings are worth more. Mr Ergen's tactics appear to be working: DISH's share price has risen since the auction began.

Strong signals

Total bid in US spectrum auction, $bn



Sources: New Street Research; *The Economist*

Foreign firms in Argentina

Waiting for Cristina to go

BUENOS AIRES

Targeted by the president, foreign companies are leaving or scaling back

ARGENTINA has never been a simple place for foreign companies to operate in. Inefficiency and inflation have plagued the country for decades. That crises occur every dozen years is accepted as fate. Recently, however, government hostility has made doing business even harder.

Cristina Fernández de Kirchner, the country's president, has a habit of bashing foreign firms: she has blamed Shell for forcing her to devalue the peso; she has threatened to slap an American printer, RR Donnelley, with terrorism charges; and she has accused American Airlines of being in cahoots with the creditors that led Argentina to default in July. "Vultures with turbines," she called the airline.

Yet it is a series of tax raids that has foreign firms on edge. In late November Argentina's tax agency, AFIP, accused HSBC, a bank, of helping over 4,000 Argentines evade taxes. Earlier that month AFIP announced that it had suspended Procter & Gamble's operations in the country for allegedly overbilling $138m in imported hygienic products to avoid taxes and get dollars out of the country.

P&G since seems to have resumed its business in Argentina. It declined to say whether it had reached a settlement with the AFIP. "Except the agency and the company itself, no one knows what P&G did or didn't do," says Santiago Zebel, who heads the tax-law programme at Torcuato di Tella University. "But we do know that AFIP has dual incentives: like all tax agencies, it aims to collect dues, but it also tries to ensure dollars aren't leaving the country."

Since 2011 companies have been unable to send their profits freely out of the country. Ms Fernández imposed this clamp, along with draconian currency controls, to stem capital flight. She also restricted imports, requiring firms to export goods equivalent in value to anything they imported. To bring in its cars, for instance, BMW has exported rice.

Ms Fernández's plan has failed: currency reserves have plummeted to $29 billion, from $52 billion in 2011. But the measures, along with the price distortions created by having multiple exchange rates and inflation running at 40%, have turned Argentina into one of the world's worst places to operate a company. It ranks 124th in the "business environment" category in the 2014 Global Innovation Index of Cornell University—below countries such as Ukraine and Mali.

In response, some foreign firms have fled the country. According to Desarrollo de Negocios Internacionales, a consultancy, 40 foreign companies have left or frozen their operations since 2011, including Elektra, a Mexican electronics retailer, British Gas and luxury brands such as Calvin Klein and Cartier. Last year Vale, a Brazilian mining giant, pulled out of a $6 billion potash project and has since left the country. In November Carolina Herrera, a clothing brand, announced it would also close its shop due to the difficulty of getting products into the country.

Of the companies that have stuck around, many have scaled back their operations. In August Farm Frites, the world's second-largest french-fries maker, sold 60% of its Argentine assets. General Motors recently announced it would suspend importing cars into Argentina from Brazil. Foreign direct investment in the first half of this year was minus $55m, compared with $5.9 billion in the same period in 2013.

Some firms have come up with creative ways to cope. American Airlines recently stopped selling tickets in Argentine pesos more than 90 days ahead of a flight—to limit its exposure to inflation or a potential devaluation. A subsidiary of Ford recently bought an olive-oil factory, ostensibly both to grease its import channels and also limit its stock of Argentine currency.

Asked what his firm was doing with excess pesos, an executive of another foreign car firm just laughed. "You think in this environment we're making much of a profit?" His strategy is simple: "Make it to next year." This attitude seems common among the firms that have not already left. In October 2015 Argentines will elect Ms Fernández's successor. All three of the leading candidates are reputed to be more business-friendly than she has been. But until one of them takes office, foreign businesses in Argentina are in for a rough ride. ■



Your dollars belong to us

Car emissions

Fuel's paradise

The efficiency of European cars is as much about trickery as technology

THAT Americans drive brash gas-guzzling cars whereas Europeans putter around in fuel-sipping runabouts is as enduring a stereotype as any. Strangely, this divide holds true even for similar models sold on either side of the Atlantic. European cars will apparently go much farther on a tank of fuel and, as a result, pump out far less carbon dioxide. But the claims in carmakers' glossy marketing literature bear little relation to actual performance.

The basis for fuel-efficiency claims and the regulation of CO_2 emissions are results obtained under "type-approval" tests. What was once a gap between the mileages achieved on test tracks and real-world roads has become a chasm, according to a recent report from Transport & Environment (T&E), a green pressure group. Analysis by the International Council on Clean Transportation, a consultancy, of data reported by car owners in Europe shows that in 2013 fuel-economy figures "on the road" were on average 38% worse than those advertised (see chart next page).

Europe's procedure is out of date and open to abuse. Carmakers send prototypes for testing. They are engineered to be as frugal as possible. Weighty extras such as the sound system and even wing mirrors are routinely jettisoned. Special lubricants make the engines run more smoothly. Tape on the cracks around panels and doors reduces drag. Low-resistance tyres filled with special gas add to the miles covered.

The cars are driven to a preset routine of gentle accelerations and low speeds, run at the highest permitted temperature of 29°C (engines are more efficient in the heat). Modern electronics can even detect the pattern of the start of the test and switch into a special "economy mode" that makes for even lower emissions.

The tests are overseen by national regulators, but carmakers pay specialist firms to carry them out. These companies compete for business by promising to "optimise" conditions. One popular test track in Spain is at high altitude (the thinner air reduces aerodynamic drag) and has a surface so smooth that it alone improves efficiency by three percentage points.

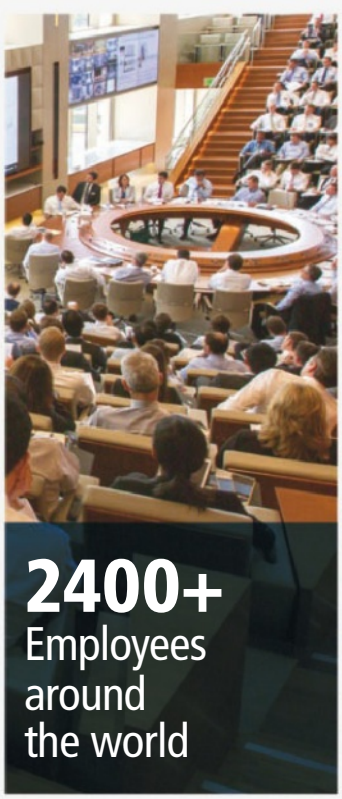
Carmakers defend the system, pointing out that a realistic test is tricky as motorists have differing driving styles. But Europeans get neither an accurate picture nor a basis for comparison. Daimler, BMW and Ford are much better than rivals at beating the real-world figures. ▸▸

WE ARE

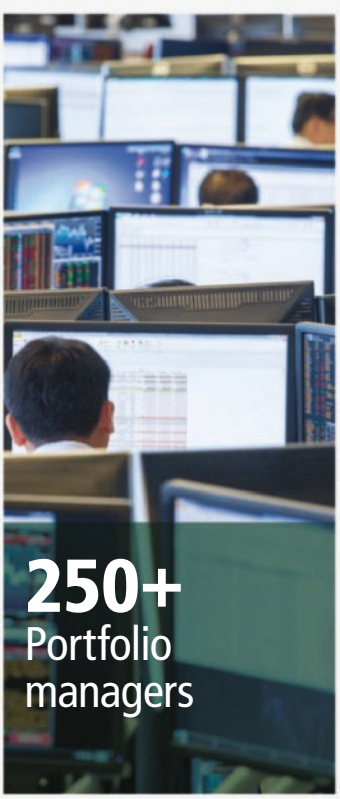
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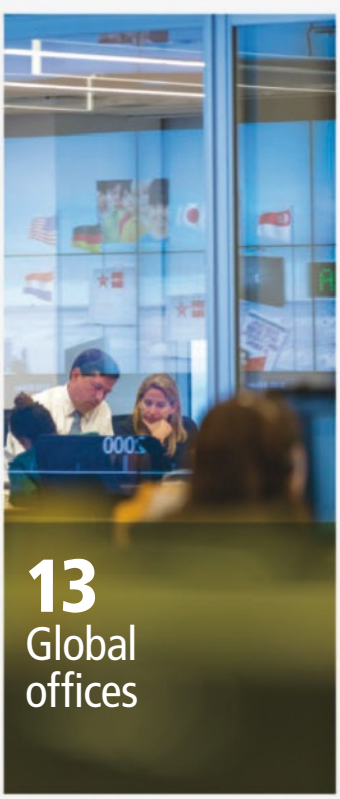
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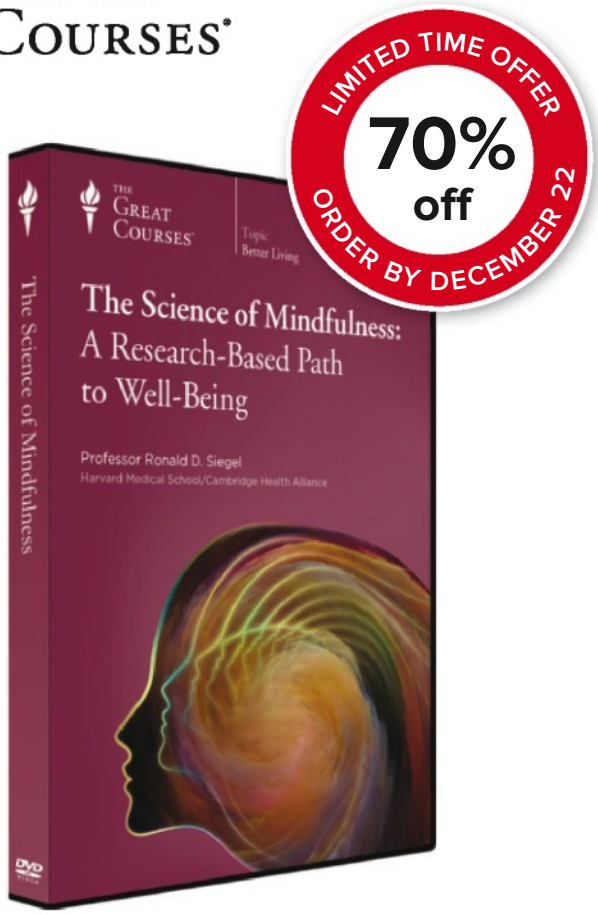
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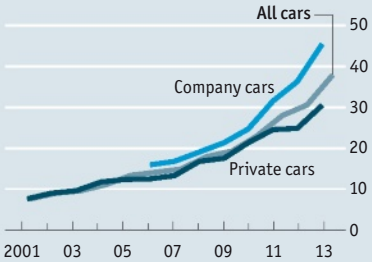
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Escaping reality

European Union CO_2 emissions

Divergence from manufacturers' certified levels*, %



Source: International Council on Clean Transportation

*Levels achieved under laboratory conditions

Car buyers in America have it better. The test cycle is more consistent with genuine driving habits. Carmakers test their own vehicles. Their results are later checked by the Environmental Protection Agency. Transgressors face stiff punishment; Hyundai-Kia recently settled to pay $350m for overstating fuel efficiency on several models by a few miles per gallon.

Almost all carmakers have met European targets for reducing carbon emissions several years ahead of the deadlines. But this is, in part, illusory, according to T&E. It estimates that between 2008 and 2013 average emissions in Europe fell by 31 grams per kilometre (g/km), but that over half the improvements came from sleight of hand rather than technological progress.

The European Commission wants to introduce a new test by 2017 that more accurately mirrors real driving. Carmakers in Germany and France are pressing their governments to delay the measure. A more stringent test will mean that Europe's target for average carbon-dioxide emissions of 95g/km by 2021 will have to be revised upwards (the French and German governments are already seeking to delay the next target, which is to take effect in 2025). At a stroke, Europe's green credentials will look as battered as an old banger. ■

Treating autism

In development

NEW YORK

Companies struggle to meet soaring demand for autism treatments

THE Centre for Autism and the Developing Brain sits on a pastoral campus north of New York city. In cheerful rooms staff meet children and adults, offering diagnoses and treatment to help them enjoy as full a life as possible. Downstairs researchers work on their analyses. The centre, part of New York-Presbyterian Hospital, is led by Catherine Lord, one of America's top autism researchers. It is the kind of place to which any anxious parent would send their child, if they could. But the centre is not cheap to replicate.

Autism is a challenge for those who have it as well as their parents and other carers. Its prevalence makes it a big business opportunity. One in 68 American children is autistic. Demand for assessments and therapies is booming. Yet the healthcare industry is struggling to meet it.

The simplest way to treat most diseases is with a pill. But autism is not a disease. It is a disorder with diverse symptoms. Patients show social and communication problems, as well as limited and repetitive behaviours. The only approved medicines are two antipsychotics, and these do not treat the main symptoms. The understanding of autism's physiology is improving, as research reveals genetic aberrations linked with the disorder. But autism seems to be associated with hundreds of mutations, making such research particularly hard.



Slowly does it

There has been some progress, helped by a partnership financed by the European Commission and Europe's main drugs-industry lobby. Scientists at King's College London, for example, have taken cells from the hair roots of autistic people and reprogrammed them to a state similar to embryonic stem cells. From these, researchers can create brain cells, offering a new way to study autism in the lab before testing treatments on patients. And consensus has been growing that researchers should focus not on individual mutations but the broader brain circuits that those mutations affect, says Luca Santarelli of Roche, a Swiss drugs firm. However, it will be years before this work bears fruit, if it does at all.

Meanwhile, an autistic person's best hope is to be diagnosed young. Early treatment can change a child's life. But treatments vary in quality. Even getting a diagnosis is difficult. Thorough tests can last five to ten hours, says Sarah Kuriakose of New York University. Not surprisingly, there is a limited supply of such rigorous diagnoses. In one recent study of more than 2,000 autistic children all showed developmental problems before the age of three, but the average age of diagnosis was over two years later.

Some firms, noticing this mismatch of supply and demand, have responded with the cure for all modern ills: an app. Autism Speaks, an advocacy group, lists more than 500 autism-related apps. Some may do good; many others are likely to be useless. One promising tool comes from SPEAK MODalities, a company which uses technology developed by Oliver Wendt of Purdue University. The app helps those with severe autism communicate, by piecing together images and recorded sounds.

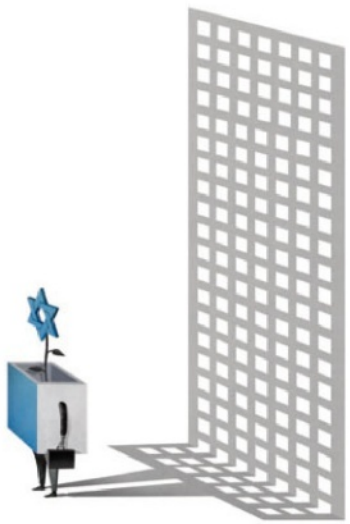
Another firm, Cognoa, founded by Dennis Wall of Stanford University, aims to ease diagnosis. Mr Wall has shown that just a few questions from the most common diagnostic tests can identify autistic children with over 90% accuracy. Cognoa's app asks parents to complete a questionnaire and record a brief video of their child doing specific activities at home. The firm's staff rate the video, then feed the score and questionnaire into an algorithm to estimate the child's risk of autism and the probability that the disorder is severe. Doctors can then use this estimate to speed their diagnosis. In future the app might monitor a child's progress in therapy.

Although these approaches sound promising, it is unclear if they will produce viable businesses—a challenge which firms that sell therapies are facing as well. To make money, they must achieve both consistency and economies of scale, by standardising the treatments, while ensuring that these are tailored to the individual patient's needs. Only recently has there been reason for firms to attempt this. Most American states have begun to require insurers to cover autism therapy.

Trumpet Behavioural Health is one company in this nascent business. It works in ten states. It has detailed standards for staff training, and for collecting data and monitoring patients' progress. Trumpet is privately held and will not disclose its finances, but says it expects to expand further. "There's so much demand for new services," says Trumpet's Lani Fritts, "I don't really see competition inhibiting our growth in the near future." ■

Schumpeter | The scale-up nation

Israel is trying to turn its Davids into Goliaths



ISRAEL is rightly proud of its status as a startup nation. It boasts the world's highest concentration of high-tech startups per head. Almost 1,000 new firms are launched every year. But all this entrepreneurial activity is not creating enough jobs as the population grows: the share of people employed in the high-tech sector has declined from 10.7% of the workforce in 2006-08 to 8.9% in 2013. Startups also fail to solve another problem: the country's high retail prices, which are 20% higher for basic products than in other rich countries, according to the OECD, a think-tank.

It doesn't come as a surprise then that Israelis have become less interested in the super-abundance of startups and more in the scarcity of big successful companies. The startup nation not only has too few of them, it also has the wrong sort. The big firms that dominate the country's stock exchange are the opposite of startups: not laser-focused organisations, but lumbering business groups that could not compete outside Israel. Worse, Israel's startups rarely turn into big companies.

Only one Israeli firm ranks in the world's 500 largest companies by market cap, Teva Pharmaceutical Industries. This dismal performance, some Israelis explain, is the result of theirs being a small country surrounded by hostile powers. But other small countries are much better at producing successful multinationals (though they are admittedly blessed with friendlier neighbours). Denmark, for instance, has a smaller population than Israel (5.6m versus 8.3m) but three companies in the top 500. Sweden (9.7m) has nine. And Switzerland (8.2m) has 17.

For a better explanation, start with Israel's business statistics. It has one of the world's most concentrated corporate sectors: 24 major conglomerates control nearly a quarter of the country's 596 listed companies and more than two-thirds of the total market capitalisation of those firms. These groups have various vices, including high debt, poor focus and pyramid-style ownership structures that allow a handful of people at the top to control a large number of subordinate companies. Predictably, growth of their earnings per share has been dismal: 2% on average in the case of companies listed on the Tel Aviv Stock Exchange.

Israel's economy was founded by a combination of socialist politicians, who believed in keeping the commanding heights of the economy in state hands, and pioneering business families, who went into lots of loosely related businesses. In the 1990s, as the socialist dream finally faded, the government privatised many of the state-owned companies. But in tackling the first problem it reinforced the second: privatisation proved to be a bonanza for family-owned conglomerates and some newcomers, such as Lev Leviev, an immigrant from the former Soviet Union, who had amassed his wealth in the diamond trade and took over one of the largest state-owned construction companies.

This would be less of a problem if Israel did not also have a disappointing record in turning startups into viable companies. Venture capital goes mostly to young startups: 80% of funds in Israel compared with 52% in America. Most entrepreneurs cash in at the earliest moment, rather than raising their brainchildren to adulthood. Israeli startups rarely go public, according to the Milken Institute, a think-tank: in 2002-12 only 9% of exits were IPOs (rather than being bought by a bigger firm). And those IPOs had an average size of just $32m. In America the respective numbers were 20% and $237m.

These early exits amount to selling the seeds before the tomatoes are ripe. It is also contributing to Israel's sense of vulnerability: the habit of exiting early is reinforcing fears about inequality which already once, in 2011, exploded into huge demonstrations. Ordinary Israelis worry that young entrepreneurs are more interested in making fortunes than creating jobs—and hence are just as bad as the conglomerates, which are more skilful at extracting rents than providing services.

The country has started to tackle both sets of problems. In December 2013 its parliament passed the Business Concentration Act. To promote competition, it limits the use of pyramid structures and prohibits cross-holdings between financial and other firms. Although the legislation gave business groups years to comply, it has political heft behind it: the vote in the Knesset was unanimous. The law is likely to reshape Israel's economy profoundly, forcing big firms to focus on core businesses and creating opportunities for market entrants.

As for startups, a wide range of new policies is being discussed: reforming the stock exchange, in particular easing the listing requirements for startups and high-growth companies; introducing new types of visas to make it easier for foreigners to live in Israel; and ensuring that the new sovereign-wealth fund, which is being created on the back of royalties from the new natural gas-field off the Israeli coast, provides capital to high-growth startups.

No stopdown nation

As politicians are thinking about how to make life easier for them, entrepreneurs are starting to be more patient. Waze, a car-navigation service, for instance, waited a few years before it sold itself to Google in 2013 for $966m. Wix, which helps people create websites, turned down several acquisition offers and went public, again in 2013. And in 2014 Mobileye, which makes software that helps drivers avoid car accidents, raised $890m, a record for an Israeli company going public in America.

It is tempting to dismiss the talk of a "scale-up nation" as yet more hype. But the reforms and the recent exits show that one should not underestimate the country's capacity for patience, one of its hidden secrets, in business as in much else. The Israelis laboriously laid the foundations of the high-tech boom by pouring money into elite universities and creating a clever system to attract venture capital. They will be equally painstaking at ensuring that the land of Davids can produce its share of Goliaths. ■



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International trade

A troubling trajectory

NEW YORK

Fears are growing that trade's share of the world's GDP has peaked. But that is far from certain

WHEN Apple launched the iPhone in 2007, it deployed a state-of-the-art global supply chain. Although the pioneering smartphone was designed in America, and sold first to consumers there, it arrived in stores from Shenzhen, China. It had been assembled there by Foxconn International from parts made by two firms in Singapore, six in Taiwan and two in America. Since then, competition in smartphones has intensified thanks to lower-cost rivals such as China's Xiaomi. It uses a similar supply chain, but slightly fewer parts are imported: the growing sophistication of Chinese manufacturers means that more components are being made at home.

The rapid spread and subsequent slight retreat of such far-flung supply chains provides one possible explanation to a puzzle that is troubling policymakers: why international trade has been growing no faster than global GDP in the past few years. In the two decades up to the financial crisis, cross-border trade in goods and services grew at a sizzling 7% a year on average, much faster than global GDP. But although trade bounced back fast from its post-crisis plunge, rising by 6.9% in 2011, it has been decidedly sluggish since, growing by only 2.8% in 2012 and 3.2% in 2013 in dollar terms, even as global GDP grew by 3.1% and 3.2%. When measured in terms of volume, trade is still growing faster than the world economy, but by a decreasing margin (see chart). Having soared from 40% of the world's GDP in 1990 to a peak of 61% in 2011, trade has fallen back slightly to 60%, the same level as in 2008.

As a result, the notion of "peak trade" is being taken increasingly seriously. Cristina Constantinescu and Michele Ruta of the International Monetary Fund and Aaditya Mattoo of the World Bank argue that the slowdown in trade relative to GDP reflects the end of a rapid evolution of supply chains that yielded big gains in productivity. This innovation was made possible by the removal of trade barriers that followed the completion of the Uruguay Round in 1994 and the creation of the World Trade Organisation (WTO), plus the integration into the world economy of China and the former Soviet bloc. In the absence of further trade deals or more big countries opening up, the evolution has slowed, causing a lasting slowdown in trade.

Trading down
World, average annual growth by decade, %



Source: WTO *2014 forecast

If this loss of dynamism is a lasting change in the structure of the global economy, then it may help explain the sluggishness of the recovery after the crash. The initial rise of global supply chains, thanks to which imported components ("intermediate goods") came to account for 30-60% of the exports of G20 countries, brought about a sharp increase in the share of the workforce that is ultimately dependent on foreign demand. In 2008, for example, foreign demand supported 25% of jobs in Germany, up from around 16% in 1995, according to the OECD. France, South Korea and Turkey each saw similarly large increases. Just under half the value of global exports is attributable to parts and materials imported by the exporting country—but that share is no longer rising.

Some economists reckon trade is peaking due less to the limits of current trade arrangements being reached than to a post-crash rise in protectionism. A recent report by economists at Citigroup cites this as one of several factors causing globalisation more broadly to stall. There has been a significant increase in new measures impeding trade worldwide since the crash, to a net 2,500 a year since 2008, compared with barely half that number in 2000. Many of these are non-tariff barriers, including onerous environmental and safety standards. "Even if tariffs are low, for example, it may still be difficult to import a car whose tail-lights are not recognised as con-

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forming to national standards," notes Douglas Lippoldt, an economist at HSBC. Even so, he points out in "Trading Up", an upbeat new paper on prospects for trade, new protectionist measures introduced in the year to May affected only 0.2% of world imports of physical goods.

Another factor, say the economists at Citigroup, may be a shift in the composition of global demand away from traded goods and services. In 1995-2007 59% of global economic growth came from advanced economies, which during that period had an average ratio of import growth to GDP growth of 2.5, compared with 1.6 for emerging economies. In 2010-13, emerging markets, with their lower trade intensity, had become the world's economic engine, accounting for 70% of global GDP growth. (Nonetheless, the share of total global trade that takes place between emerging-market economies has grown to 25% from 12% in 2000.)

The composition of global demand could yet move back towards greater trade intensity, for several reasons. There may one day be stronger growth in the European Union, which has a far bigger share of world imports (33%) than it does of the global economy (19%). As they get richer, it is likelier than not that developing countries will trade more relative to their income.

Recent signs of life in trade negotiations may help. Last month America and China struck a deal which should allow a proposed treaty on trade in information technology among willing members of the World Trade Organisation to proceed. A long-stalled deal among all members to make it easier for goods to pass quickly through ports and customs also seems to be moving forward at last. The Republican takeover of the Senate may also help spur trade deals involving America, several of which are under negotiation. There are

Buttonwood | Frozen or Buzz?

Political risk returns to haunt the Christmas season

IF INVESTORS thought they could take things easy in the run-up to Christmas, enjoying the traditional "Santa rally", they are instead facing the Grinch. Old fears have returned to remind them of the many risks 2015 may bring.

The first risk, ironically, is the consequence of good news. America added 321,000 jobs in November, suggesting that its economy is growing strongly. That, along with a monthly rise in average hourly earnings of 0.4%, raised expectations that the Federal Reserve might start to push up short-term interest rates in 2015. Central banks have been helping to propel stockmarkets for so long that it is not clear whether prices are justified by fundamentals or are simply the consequence of easy monetary policy.

The fall in the oil price is also good news. By transferring spending power from producers to consumers, it may boost global GDP growth in 2015. But while consumers may gain, the effect on some oil-producing countries such as Nigeria, Russia and Venezuela will be extremely adverse. Such a sharp fall in the oil price puts huge pressure on government revenues and raises the prospect of financial turmoil next year. There has also been a sell-off in the currencies of many developing countries, with JPMorgan's Emerging Market Currencies Index hitting a 14-year low.

Another long-standing worry that has returned to the fore is the stability of the Chinese financial system in the face of weakening growth. After the People's Bank of China cut interest rates last month, the Shanghai stockmarket went on a tear, rising by nearly a quarter in two weeks (see next story). But on December 9th the market fell by 5.4%, the biggest single-day loss in five years. Though it has since rebounded a little, trading has become very choppy. Regulators are reported to be checking that brokers are sticking to the rules limiting margin financing, suggesting that the rally stemmed at least in part from the illegal use of leverage.

But the most scary of the ghosts of Christmases past is the seldom-distant spectre of a renewed euro-zone crisis. Greece's coalition government has called for a decision on a new president by December 29th; if 60% of its parliament cannot agree on a candidate, a new election will be called. The leading party in the polls is Syriza, a left-wing grouping which opposes the bail-out programme, rejects austerity and wants a renegotiation of (ie, reduction in) the country's debt. The prospect caused the Greek stockmarket to fall by almost 13% on December 9th, its worst one-day decline since 1987.

If Syriza does take power and demands a renegotiation, or cancellation, of Greece's debt, Europe's leaders will face a tricky choice between what might be called the "Frozen" and "Buzz Lightyear" options. If Greece's demands seem too unreasonable, the temptation will be to follow the advice of the hit song from "Frozen" and "let it go"—cut the Greeks off from financing by the European Central Bank (ECB) and see if a chastened Syriza party comes back to the table. The risk of such an approach is of contagion, with investors fearing that a Greek exit from the euro could set a precedent for other countries to leave, causing a sell-off in the bonds of Portugal or Italy.

The alternative would be to do some deal that extends the Greek debt even further, "to infinity and beyond" in the catchphrase from the "Toy Story" films. In that case, the danger would be that other countries would feel Greece had been treated favourably and demand similar deals. The credibility of the reform process would come into question.

Which option will be chosen? The yield on the three-year Greek government bond has risen above that on the ten-year bond (see chart). A sharp rise in short-term bond yields can mean that investors think the central bank will push up rates, but that is highly unlikely in this case. Instead, investors are clearly worried about taking a write-down on their bonds.

This risk has been building for some time. Mario Draghi, head of the ECB, stopped the rot in 2012 with his "whatever it takes" promise to save the euro. But European voters have since been treated to an endless diet of austerity and lower living standards; they are fed up. They see little difference between the mainstream parties of the centre-left and centre-right and are turning towards the extremes. It may start with Greece but it won't stop there: look at the poll ratings of Marine Le Pen in France, for example. In Britain, the rise of UKIP may mean another hung Parliament in 2015 and an exit from the EU in 2017. Political risk is on the march.

Greece frightening

Greece, government-bond yields, %



Source: Bloomberg

Economist.com/blogs/buttonwood

huge differences in the share of intermediate imports in exports in different industries, which is a rough proxy for the extent to which trade rules have allowed global supply chains to flourish. In machinery and transport equipment it exceeds 35%, whereas in finance, insurance and food it is below 20%.

Not everyone agrees that, if trade has indeed peaked, it is worth worrying about. Paul Krugman, who won a Nobel prize in part for his work on trade theory, maintains that "ever-growing trade relative to GDP is not a natural law" and "we should neither be amazed nor disturbed if it stops happening." Others question whether trade has peaked at all: they put the apparent decline down to mismeasurement. For instance, James Manyika of the McKinsey Global Institute argues that there has been a sharp rise in trade in software and other digital goods that statisticians struggle to track, not least because it is often unclear where transactions are taking place.

This is why efforts have begun to construct new trade data based on where economic value is added. The initial findings do not seem to show that trade is slowing down. They also challenge simplistic analyses of where economic clout lies. A study last year by the Asian Development Bank of China's $2 billion of iPhone exports found that only $73m of their value was added in China, compared with $108m in America and $670m in Japan.

Whether trade is declining relative to GDP and why may not be clear for years. Yet one thing is: were more barriers to be lifted, especially in areas like services and farming where many still remain, it would probably lead to a new spurt in the evolution of supply chains that would lift trade far above today's "peak". ■

China's stockmarket

Dynastic bull

SHANGHAI

There is good reason for shares to rise, but a manic market is a policy headache

FRENZIED markets often give rise to grandiose claims about tectonic shifts in the economic order. Think of "Dow 36,000", a book published in 1999 just before the dotcom bubble burst, arguing that the principles of stock valuation had fundamentally changed. The recent leap in China's stockmarket has prompted similar theorising. When shares soared by 20% in two weeks, analysts at Cinda Securities, a broker, found the root cause in 3,500 years of Chinese imperial history. The pattern of chaos leading to the establishment of a new dynasty, followed by the consolidation of power and, finally, a flowering of prosperity, was being repeated. "A bull market is inevitable," they concluded.

Rekindled

China's CSI 300 stockmarket index
December 31st 2004=1,000



Source: Thomson Reuters

Long-term confidence in China's economy is understandable, but it is not a credible explanation for the stockmarket's sudden lift-off. For that, a host of shorter-term factors take precedence. The immediate catalyst was the central bank's decision to cut interest rates on November 21st. The People's Bank of China had already injected at least 1 trillion yuan ($162 billion) into the economy, but investors viewed the rate cut as the first clear signal that the government wanted to ease monetary policy, which typically is good for stocks.

In the past few months, shares have also emerged as one of the few decent investment possibilities in China. Interest rates on deposits are low and capped. A recent regulatory crackdown on certain high-yield savings products has curtailed a previously popular option. The cooling property market has lost its appeal. *Shanghai Securities News*, a state-run paper, has reported that property speculators from Wenzhou, a city notorious for investment crazes, have turned to shares in droves.

The rally has sucked in more and more mom-and-pop investors. Nearly 600,000 stock accounts were opened in the first week of December, almost four times the average since July. Retirees have crowded into the offices of brokers to use their terminals. Intra-day swings have been wild and trading volumes have reached records. Leverage has also contributed: investors have borrowed 900 billion yuan to buy shares, more than double July's amount.

The excitement has been eerily reminiscent of China's 2006-07 stockmarket bubble, which popped painfully in 2008. After that, however, the market stalled for years (see chart) and so now looks cheap. Although the Shanghai Composite, the country's biggest index, has gained more than 40% since July, shares are still valued at only ten times projected earnings for next year. The global average is 15 times.

The government has cheered on the rally via the state-owned media, says Howhow Zhang of Z-Ben Advisors, a consulting firm. On December 10th, the day after the stockmarket had plunged by 8% in two hours, the lead article in *China Securities Journal* argued that the logic for a bull market remained intact. Shares duly recovered some of the lost ground.

A strong stockmarket helps China's economy. One of the reasons for the big rise in debt over the past five years has been firms' near-exclusive reliance on loans and bonds for financing. Rising equity valuations, says Liao Qiang of Standard & Poor's, a ratings agency, will allow banks and other firms to strengthen their balance-sheets by issuing shares or divesting assets. Too strong a market, though, creates its own headache. The rally is predicated on the expectation that monetary policy will continue to ease, and anaemic inflation data show that the economy still needs support. But the government will be wary of adding fuel to a market that is already on fire. ■

Intellectual property in China

Patent fiction

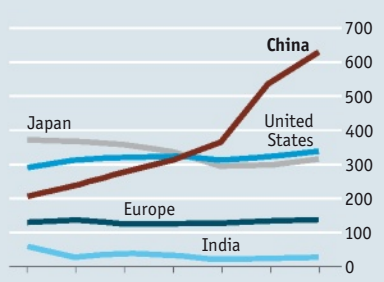
SHANGHAI

Are ambitious bureaucrats fomenting or feigning innovation?

"WHAT has long been predicted has now become a reality: China is leading the world in innovation." So declares a press release promoting a new report by Thomson Reuters, a research firm, called "China's IQ (Innovation Quotient)". The report highlights the astonishing increase in patents filed in the country. In 2010 Chinese firms filed roughly the same number of applications for "invention" patents (the most rigorous sort) as their counterparts in Japan and America. By 2013 the Chinese figure had nearly doubled even as the rates in the other two countries held steady (see chart).

Granddaddy of invention

Invention-patent* applications
Published by patenting region, '000



Source: Thomson Reuters

*Excludes utility models and designs

Some scepticism is in order, however. For one thing, the explosion of patent filings is not the result of local researchers suddenly coming up with twice as many ingenious inventions: it is a response to a government order. As the report acknowledges, "the growth in output is driven by the 12th Five-Year Plan and the associated Chinese National Patent Development Strategy". Bureaucrats have decreed that local firms will apply for 2m patents by 2015. Thanks to various subsidies and incentives, China looks set to hit that target.

The quality of many of these patents is in doubt. Of the desired 2m filings, many will be for "utility" or "design" patents, which are less substantial than "invention" patents. Critics suggest that even in the latter category, many Chinese filings fall short of global standards.

That is why it is useful to see what percentage of Chinese invention patents are also filed at foreign patent offices, which tend to be more rigorous and transparent. (When a firm goes to the trouble of filing for patents globally, it is usually a sign that it believes its invention to be genuinely valuable.) Only about 5% of patents filed by local firms in China last year were also filed abroad, whereas over a third of patents originally filed by local firms in Japan were also filed elsewhere.

Almost all of the growth in China's invention patents over the past three years has come from local firms, not from the Chinese divisions of multinationals. That suggests that the bureaucrats' orders are responsible, rather than the emergence of a local ecosystem of innovation as seen in Silicon Valley. Intellectual-property rights do matter, but merely churning out patents does little to advance innovation. ■

Capital standards

Buffing up

NEW YORK

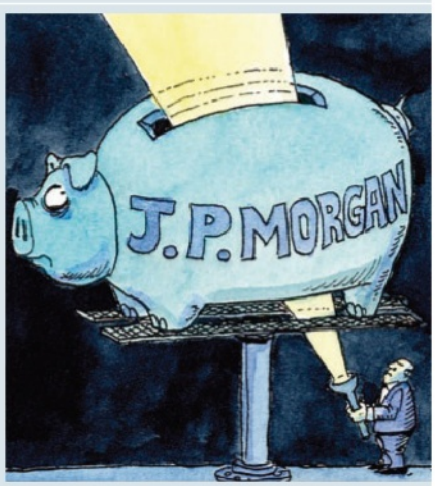
Big banks find they are in yet another hole over capital

WHAT passes for a grave blunder in Washington is often simply a truth unintentionally revealed. That principle was at work on December 9th when Stanley Fischer, vice-chairman of the Federal Reserve, commented on the $22 billion shortfall in capital that new prudential regulations will create at America's biggest banks. He let slip that the whole deficit can be ascribed to just one of them: JPMorgan Chase. Investors, naturally, were dismayed by the prospect of a year's earnings being used to plug the new-found hole.

The rules in question, which will have to be met by 2019, apply to American lenders deemed "systemically important". They are intended to ensure that banks can keep operating when wholesale lending dries up, by limiting the amount they can borrow from flighty sources. Their existence had already been disclosed, but their impact on individual institutions was not previously made public and the formula used to derive the shortfall remains a secret.

The main victims of the rules were expected to be institutions lacking stable retail deposits, notably Goldman Sachs. The singling out instead of JPMorgan is particularly striking given that it came through the financial crisis in far better shape than other big banks, protected by what it called its "fortress balance-sheet".

The new American regime gold-plates global capital standards for big banks. As it was, the previous regime was sapping banks' ability to return cash to their shareholders. Even if they meet all the



quantitative requirements, a "qualitative" probe of operations known as CCAR can still trip them up. Regulators can bar dividends or share buy-backs until they are satisfied.

The intent of these requirements is to create stability in the financial system, but inevitably they bring instability as well. The new rules discourage banks from holding big corporate deposits, which may push this money to less regulated entities. By keeping the formulas behind the rules secret, officials hope to stop banks gaming them. But that also makes it hard to meet the standards. Worse, the complexity of the new rules has increased the value of people who understand them, keeping the reviled "revolving door" between banks and government spinning.

Mexico's economy

Pass the tequila

MEXICO CITY

Two decades after the peso crisis, Mexico faces new shocks

MANY factors contributed to Mexico's "tequila crisis" in 1994, but two stood out: tighter monetary policy in the United States and political instability at home. Almost exactly 20 years later, the same forces are again weighing on the currency, compounded by falling oil prices. The situation is not nearly as precarious as it was then, but Mexican policymakers may still need a shot or two to steady the nerves.

Since the 50% devaluation of 1994 the peso has floated freely, which makes it safer than it was 20 years ago but something of a punch bag for nervous investors. Like many emerging-market currencies it has been dropping against the dollar—it is down 11% since June. On December 8th Mexican authorities said they would intervene to support it by auctioning $200m on days when it sinks by at least 1.5% against the dollar. On December 10th it hit 14.5, its lowest level in more than five years.

The peso began falling roughly when the price of Mexican oil did, suggesting a link. To protect the third of its revenue that comes from oil, the government has fixed a floor price for a quarter of its output over the next year of $76 a barrel, using hedges. However, Mexico's production has fallen sharply recently and if prices remain low, the pain could be felt in lower growth and slimmer budgets in years ahead.

That is partly because low prices may reduce the appetite for investing in Mexico's oil industry, whose opening next year is expected to be a powerful driver of economic growth after 2016. To entice investors, Mexico may have to put its most attractive assets on the block straight away. It is also because the budget deficit is higher than it should be given the oil bonanza of recent years. Luis de la Calle, an economist, notes that this year it is expected to climb above 4% of GDP, even though at one point Mexican oil was fetching over $100 a barrel. Oil is bringing in little more than half as much now, yet the government is promising to keep the deficit below 4% from next year on. That will be hard to do without slashing spending. As it is, despite hefty public investment in infrastructure intended as a stimulus, the economy is likely to grow by only 2% this year.

Meanwhile, several scandals have sapped the popularity of Enrique Peña Nieto, the president. According to another economist, Rogelio Ramírez de la O, this "window of weakness" has left his government susceptible. It is under pressure to re-

verse recently introduced tax hikes. Inflation is already a little above target and the peso's fall will mean expensive imports, lifting firms' costs and cutting real wages. Both businessmen and the governor of the central bank have questioned plans to raise the minimum wage next year.

These domestic tussles are playing out against a global backdrop that could both help and hinder Mexico. Like many currencies, the peso is weakening on the expectation that the Federal Reserve will raise interest rates as the American economy recovers, much as it did in 1994. In this scenario, Mr Ramírez de la O expects the peso to fall to about 15 per dollar in the next six months. That could force the central bank to raise interest rates. Yet a stronger American economy is also good for Mexico because it sucks in more exports. ■

Lending Club

Peer pressure

If you believe the hype, peer-to-peer lenders are coming of age

IT CAN take a couple of weeks for potential borrowers to secure a loan via Lending Club, a "peer-to-peer" platform that matches them up with savers seeking to invest spare cash. The company itself took only five hours to find enough backers to subscribe to its $870m stock offering, valuing it at around $5.4 billion. Its shares were due to begin trading as *The Economist* went to press.

The growth of "marketplace lenders", as the online nearly-banks now prefer to be called, has been exponential. Started in 2007, Lending Club is the biggest, facilitating over $1 billion in loans per quarter. That remains tiny compared to the $3 trillion market for personal debt in America. But its rapid progress—loans have roughly doubled every year—has fuelled breathless talk of big banks and credit-card peddlers being "disrupted" in the same way taxi companies have been by Uber, based just down the road in San Francisco.

A confluence of trends has boosted Lending Club and its peers. Demand for loans from creditworthy borrowers has held up even as banks have retrenched in the face of mounting regulation. There is no shortage of willing lenders: once provided mainly by the internet-browsing public, three-quarters of loans are now offered by yield-hungry institutional investors such as hedge funds.

Technology has also made the process of cutting out the middleman that much easier, for example by gauging the creditworthiness of potential borrowers through their musings on social media (best not to tweet about walking away from your electricity bill).

Doing banking without the expensive bits of the industry—branches, creaking IT systems and so on—means that peer-to-peer loans offer lower rates, reflecting their reduced costs (see chart). Most borrowers are refinancing their credit-card debt, swapping a loan on which they paid 16-18% for 12% or so at Lending Club. The company's focus has been on smaller loans (up to $35,000) to individuals with decent credit ratings, although it is also catering to businesses now.

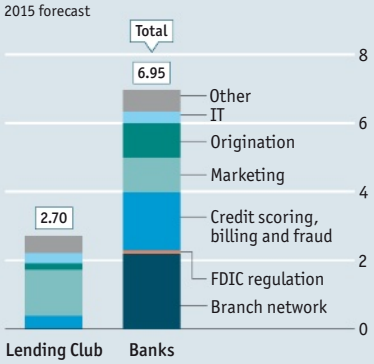
Peer-to-peer lenders use credit scores as a starting-point to establish a borrower's creditworthiness in the same way as banks and credit-card companies do. But they say their snazzy credit-scoring algorithms will enable them to weed out probable defaulters better than conventional financial firms do, leading to smaller losses. That is plausible but unproven. Doling out cash in good times is far easier than getting it back in a recession, as seasoned bankers know.

The most appealing feature of Lending Club for those buying its shares may be that it is not a bank. It makes its money by charging fees to both borrowers and lenders but does not take any risk itself. Better yet, if borrowers do not repay their loans, those who advanced them the money do not expect to be made whole, unlike bank depositors. There is no government guarantee, explicit or otherwise.

Lending Club is hardly the scrappy insurgent that it is sometimes painted to be: its board includes John Mack, a former boss of Morgan Stanley, and Larry Summers, once America's Treasury secretary, along with a slew of prominent venture capitalists. Sustained future profitability will depend on the accuracy of the premise that banks are no better at gauging a customer's creditworthiness than this new breed of newcomers and their crowd-sourced insights. If that proves to be more than boom-era bluster, banking deserves to be disrupted. ■

Either a borrower or a lender be

Operating costs as % of outstanding loans
2015 forecast



Sources: McKinsey; Liberum

The Federal Reserve

Opportunistic overheating

WASHINGTON, DC

As the Fed signals higher rates, low inflation calls for patience

WHEN officials at the Federal Reserve meet next week, they will wrestle with a problem most other central banks would love to have: what to do if unemployment gets too low?

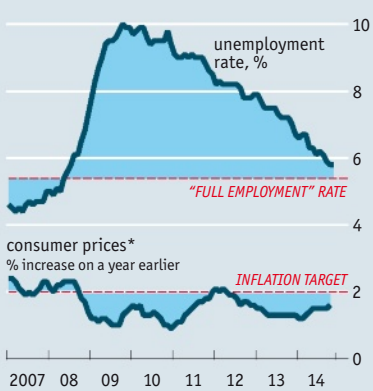
The question is not hypothetical. America's labour market is on a tear. Non-farm employment rose by an impressive 321,000 in November, the most in nearly three years. Job growth is not only strong, it is accelerating, averaging 241,000 this year, up from 194,000 last year. The unemployment rate, at 5.8%, is down 1.2 points in the past year. Within a year, at that pace, unemployment could drop below 5%. At such levels, the Federal Reserve reckons, firms struggle to find workers and so start to offer higher wages. Inflation soon follows.

To be sure, the labour market is not fully healed. Wages have risen by only a paltry 2.1% in the past year, though they flickered to life in November. Nonetheless, the improving picture means the Fed may soon signal that it is open to raising interest rates from zero, where they have languished since 2008. Although it recently brought its bond-buying programme (known as quantitative easing) to an end, it has pledged since 2012 to keep interest rates near zero for "a considerable time". At their next meeting, which finishes on December 17th, the central bankers may drop that phrase or replace it with something vaguer.

Bolstering employment is only half the Fed's mandate; its other duty is to keep inflation near 2%. Yet since the Fed made that its target in early 2012, it has persistently fallen short (see chart). The $50 drop in the ▸▸

When mandates collide

United States:



Sources: Bureau of Economic Analysis; Bureau of Labour Statistics; Federal Reserve

*PCE excluding fuel and energy

Divisions at the ECB

Draghi and the dissenters

The rift at the top of the ECB is dangerous

WILL the European Central Bank introduce a quantitative-easing programme involving big purchases of government bonds? At a press briefing on December 4th Mario Draghi, the ECB's president, had little new to convey other than a semantic change to the ECB's plan to increase the size of its balance-sheet by €1 trillion ($1.2 trillion), which is now "intended" rather than "expected". Nonetheless, the tweak was controversial: six or seven members of the 24-strong council, including three of the six people on the executive board, are reported to have opposed it. Mr Draghi (pictured, right) insists that a majority on the council can overrule dissenters.

That is no more than a statement of fact. But Mr Draghi's readiness to highlight it contrasted with his more emollient tone just a month earlier. Then, he was at pains to paint a picture of a council united in its determination to ensure that inflation, currently a mere 0.3%, does not stay too low for too long. This had followed some unfavourable press coverage about Mr Draghi's reported high-handedness towards fellow council members.

Mr Draghi undoubtedly has a very different style of leadership to that of Jean-Claude Trichet. His French predecessor had at times to override opposition on the council, notably over the ECB's first foray into government-bond buying in May 2010. But he was assiduous in trying to build a consensus that he then presented. By contrast, Mr Draghi is more willing to strike out on his own, putting pressure on the rest of the council to follow, notably with his most famous intervention, the impromptu pledge at a conference in London in July 2012 to do "whatever it takes" to save the euro.

But Mr Draghi was aided then by a sense of emergency, as the euro area teetered on the brink. The problem of worryingly low inflation that the ECB now faces is grave but it is not existential. Some speculate that Mr Draghi may be in a hurry to get on with quantitative easing because he would like to move on to a new job next year, as president of Italy, when Giorgio Napolitano (pictured, left) is expected to retire. (Mr Draghi has dismissed the idea that he might leave the bank.) Whatever he does, the in-fighting on the council does not bode well for the ECB's ability to lift inflation.



Life is quieter in the Quirinale

price of oil since June is likely to send headline inflation below 1% next year, reckons HSBC, a bank. The stronger dollar is also playing a part, by making imports cheaper.

The Fed has often faced contradictory pressures from unemployment and inflation. In late 2012 Janet Yellen, then the Fed's vice-chairman (she is now the chairman), ran a simulation to determine what policy would best balance the two. It concluded the Fed should hold interest rates at zero until 2016 to hasten the fall of unemployment, though that would temporarily push inflation above 2%. That exercise helped establish Ms Yellen's reputation as a dove. But her staff reran the exercise last month and concluded that with unemployment so much lower, the optimal policy is to start raising rates immediately, even though inflation is below target.

The Fed's apparent willingness to tighten with inflation so low rests on the assumption that it will slowly return to target thanks to a tightening labour market and stable expectations of inflation. The central bank is also inclined to ignore the impact of oil prices as transitory, much as it did when oil shot up in 2009.

That may be too sanguine. A paper by Olivier Coibion of the University of Texas at Austin and Yuriy Gorodnichenko of the University of California at Berkeley found that the jump in oil prices in 2009 may have had a much bigger impact on inflation than is generally believed. They reckon that given the rise in unemployment, inflation should have fallen to around zero in 2009-11. It did not, they say, because oil placed upward pressure on expected and actual inflation.

By the same token, the latest drop in the oil price may also leave a surprisingly deep imprint. In recent months a market-based measure of expected inflation in five years' time has dropped from 2.1% to 1.6%, according to Barclays, a bank. That is a bigger fall than the one that has occured in the euro zone, which is flirting with deflation. The measure should be relatively immune to the gyrations of the oil price. Yet Fed officials have downplayed its decline.

The risk is that inflation becomes entrenched at its current, lower level. This will not matter when the economy is growing, but when the next recession comes along, it will cause problems. Interest rates cannot fall below zero, since savers would simply convert their deposits into cash. If inflation is 2%, real rates can fall as low as -2%. If it is only 1%, however, the lowest they can go is -1%, which may not be low enough. Indeed, it has taken more negative rates than that to bring America's economy back to its present state of health.

Low-cost insurance

The Fed could insure against such an outcome by letting unemployment fall below 5% for a time. By putting upward pressure on both wages and prices, that would not only push inflation back to target, it might also draw back into the labour force workers who dropped out because job prospects have been dismal for so long. This would be the mirror image of "opportunistic disinflation", the strategy the Fed pursued in the early 1990s. At the time, inflation was too high and the Fed exploited periods of high unemployment to ratchet it lower. Opportunistic inflation simply means exploiting periods of overheating to ratchet inflation higher.

Lingering with rates at zero is not without pitfalls. Inflation could, against all expectations, rebound suddenly and force the Fed to push rates up rapidly, roiling financial markets. Furthermore, many argue that rock-bottom zero is fomenting dangerous imbalances. Speculative froth is already widely visible: many stocks are trading at dizzying valuations; the bonds of risky companies and countries are trading at only slightly higher yields than safe government debt.

The Fed could mitigate both risks with a strategy of "soon but slow": raise rates a token amount as scheduled in mid-2015, then signal that it will drag its feet on subsequent moves. That would remind speculators not to take zero rates for granted, and give the Fed a modest head start if inflation roars back. Whatever strategy it chooses, the risk the Fed must keep front and centre is of falling back into a trap of negligible inflation and zero interest rates. Were that to happen, full employment would once again slip out of reach. ■

Clarification: An article we published last week ("Last hurrah", December 6th) might have been read as implying that the Terra Firma Capital Partners III fund charges an annual management fee of 2%. Although many private-equity funds do charge fees of 2%, Terra Firma III charges only 1.5%.

Free exchange | An on-off relationship

Counter-cyclical capital controls are great in theory but less useful in practice

CAPITAL controls are back in the spotlight, this time on Europe's northern flanks. To the east, many expect Russia, battered by oil's plunge, to impose limits on currency conversions to halt the rouble's fall. To the west, Iceland, at last turning the corner after a painful financial crisis, is planning to ease restrictions that have stopped cash from leaving the island since 2008.

That the pros and cons of capital controls can be calmly discussed is progress. Until a couple of years ago, they were the bastard children of economic policy. Guardians of the established order refused to acknowledge their usefulness. But used they were, particularly in emerging markets. Then, in 2012, the once-unthinkable happened: the International Monetary Fund bestowed its blessing on them "under certain circumstances".

What the appropriate circumstances are, however, remains a matter of dispute. Orthodox economics holds that capital controls are usually harmful to growth, because, much like barriers to trade, they breed inefficiency: those with excess cash cannot lend it to those who could use it best. But crises in Mexico and Asia in the 1990s made clear that a sudden influx of cash can propel asset prices and exchange rates beyond reasonable levels, and that its eventual exodus imperils financial stability.

With the IMF's qualified endorsement, there has been an explosion of research about how capital controls should operate.* The emerging consensus is that well-designed capital controls should be targeted and limited, such as taxes on short-term foreign borrowing or minimum "stay" requirements for foreign direct investment (FDI). Strict prohibitions against all cross-border flows are still frowned upon as too blunt, except in extreme cases. As for timing, the ideal is that controls should be counter-cyclical. When capital surges in, governments ought to tighten controls; when cash departs, controls can be relaxed.

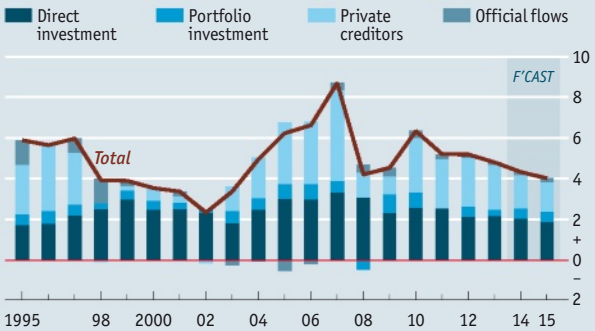
This seems a neat solution, reconciling the dream of free-flowing cash to the untidy reality of global finance. But it is far from the final word.

There are three big snags with the idea of on-off capital controls. First, even stringent controls can be pierced. Perhaps the best example is China, one of the staunchest practitioners. In a new quarterly report, the Bank for International Settlements noted that international bank lending to China reached $1.1 trillion in June, doubling in 18 months. Much of that has been trade finance, ostensibly for foreign firms to buy Chinese goods. In reality, it is a ruse for Chinese firms to sneak the money in. The BIS also pointed out that many Chinese firms were issuing debt via foreign subsidiaries, leading to inflows that look like FDI but are really loans.

The biggest impact of capital controls appears to be on the composition of flows. Money that in their absence would go straight into stocks instead enters in the guise of FDI. Given that FDI in emerging markets far outstrips portfolio inflows (see chart), there is ample scope to get around the rules. If gushers of cash find their way past even well-guarded, permanent walls such as China's, then hastily built counter-cyclical barriers will be at least as porous.

Under control

Net non-resident capital flows to emerging markets, % of GDP



Sources: IIF; *The Economist*

Captive capital

The idea of on-off controls has a second big flaw: it disregards the revealed preference of nations. The debate is almost always framed as how to regulate inflows. On examining the record of what governments have actually done, it turns out that they devote far more attention to stemming outflows.

Joshua Aizenman of University of Southern California and Gurnain Kaur Pasricha of the Bank of Canada examine 664 changes to capital-control regimes in emerging markets in the first decade of this century. Restrictions on capital outflows were eased 274 times, more frequently than any other kind of change. Opening the door to outflows can meet the same basic aim as blocking inflows (net inflows should decline) but the optics are very different. In the former, regulators loosen their grip on the economy, a signal of confidence to global markets.

Finally, there is scant evidence that an on-off approach to capital controls is even practical. Few countries have ever attempted one. In a recent paper Barry Eichengreen and Andrew Rose of the University of California, Berkeley conclude that decisions to strengthen or slacken controls have little relationship to inflation or growth—that is, they are not counter-cyclical. This finding is in line with other research showing that even after the global financial crisis, there was no consistency in the way different countries used capital controls. Some, such as China and Indonesia, loosened restrictions as their economies boomed, the opposite of a counter-cyclical approach.

Brazil's experience lends support to the sceptics. From late 2009, when inflows into emerging markets surged, Brazil gradually ratcheted up capital controls. A new paper by Marcos Chamon of the IMF and Márcio Garcia of PUC-Rio concludes that a first series of measures from 2009 until mid-2011—taxes on debt and equity inflows—did not slow the real's appreciation, which had been the government's main objective. A big increase in FDI suggests that investors simply found other channels.

Measures taken in the second half of 2011 to target offshore equity derivatives finally appeared to have an impact, weakening the real by as much as 10% relative to what might have been expected. But other factors were also at play: the central bank started cutting interest rates in late 2011. More important, all the various restrictions also inflicted damage on the Brazilian economy, raising funding costs and deterring investment. Brazil's dismal growth performance over the past three years is hardly a ringing endorsement for the on-off approach.

Counter-cyclical capital controls are an alluring idea. So far, though, that is all they are. ■

* Studies cited in this article can be found at www.economist.com/capcontrols14



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Geoengineering the climate

Into the great wide open

WASHINGTON, DC

Scientific studies of techniques for deliberately modifying the climate are getting ready to move out of the laboratory

IN 1990 John Latham, a cloud physicist, published a short article in *Nature* under the headline "Control of Global Warming?" It argued that if low-lying maritime clouds were made a bit brighter, the Earth could be cooled enough to make up for the increased warming caused by emissions of greenhouse gases. The brightening was to be achieved by wafting tiny sea-salt particles up into the clouds from below; by acting as "cloud condensation nuclei" (CCN) they would increase the number of water droplets in the clouds, and thus the amount of sunlight they reflect out into space. Latham calculated that a square kilometre of cloud might be kept bright with just 400 grams of spray an hour. And finding out if it was really that easy might be straightforwardly tested. "It seems feasible", Dr Latham wrote, "to conduct an experiment in which CCN are introduced in a controlled manner into marine stratus."

A quarter of a century on, such a test may soon be on the cards. For more than ten years Dr Latham's idea was almost entirely ignored. Then it caught the attention of an enterprising engineer, Stephen Salter of the University of Edinburgh, who looked at ways it might be made practicable, and a small number of researchers started to pay attention. But the question of whether anyone could actually produce ship-borne sprayers that would reliably churn out particles a ten-thousandth of a millimetre in diameter at a rate of 1,000 trillion a second remained open.

Armand Neukermans, a retired Silicon Valley engineer whose achievements include, among other things, the development of the earliest inkjet printers, has with various colleagues (also mostly retired) looked at a range of possible techniques. One that may be up to the job is "effervescent spray atomisation" in which, rather than trying to make truly tiny droplets straight away, you make larger ones in which water mixed with gas subsequently fizzes into particles of the desired size.

Dr Neukermans, Thomas Ackerman and Robert Wood, the latter two both scientists who study clouds at the University of Washington, have with colleagues put together a proposal for field tests to see if such sprayers really work, if their effects can be controlled and measured, and what happens to clouds treated in this way. They are now investigating how to get such a programme financed.

They are not the only people who want to see how ideas from geoengineering studies play out in the real world. David Keith, a professor at Harvard University, has been studying how to reflect sunlight back from an artificial layer of haze in the stratosphere similar to that created by the sulphur thrown up by large volcanic eruptions, which are known to cool the Earth. One of the risks would be that such particles can encourage chemical reactions which deplete the ozone layer. Dr Keith and his colleagues want to study how the rates of such reactions depend on the sizes of the particles and background levels of water vapour; that would help to assess the risks and perhaps find ways to limit them. They have designed a system which would hang below a large balloon 20km up in the sky. It would create a small plume of sulphate particles and then measure the physical and chemical changes.

For both the clouds and the stratosphere, the direct effects of the proposed experiments are tiny. Cloud-brightening on the scale imagined requires less than a litre of seawater a second. The amount of sulphur that might be put into the stratosphere would be about 2% of what a passenger jet crossing the Atlantic emits in an hour. These proposals are not distinguished by the scale of what is envisaged, but by the precision with which they would be carried out and the care with which their effects would be monitored.

The worried ones

Another distinction weighs more heavily. Though these experiments would provide insights useful to scientists in other areas—the physics of clouds and the chemistry of the stratosphere are big topics in their own right—they are being proposed as ways to further research into geoengineering. That concerns many people, and a number of environmental campaign groups oppose all such experiments. Academic critics such as Clive Hamilton of Charles Sturt University in Australia argue that, though the risks to health or the environment may be minor, such experiments pose "political ▸▸

and social risks" that are much more troubling. Experiments could create "lock-in" around a particular research path, forming a constituency that would downplay subsequently uncovered risks and obstacles. And the mere fact of experiments going ahead might lead people to assume that geoengineering could easily be made feasible, and thus to give up on reducing carbon emissions.

Following the money

Perhaps because of such concerns, financing bodies have not yet shown much appetite for geoengineering experiments. In America, most of the relatively little research money spent so far has gone to computer models. In Britain, where three interdisciplinary research programmes in the field are coming to an end, a proposed experiment that would have sprayed water from a balloon was cancelled by the team that had been planning it in 2013 because of worries about the transparency of the process by which the experiment had been set up. At a recent discussion devoted to these British programmes Alan Gadian of the University of Leeds, who works with Dr Latham, Dr Neukermans and their colleagues, made no bones about his belief that the government had a bias against financing experiments like those now proposed for cloud-brightening.

In the absence of government funding, some philanthropists have been helping out. Dr Keith is one of the administrators of the Fund for Innovative Climate and Energy Research, through which Bill Gates and some of his former Microsoft colleagues finance research on geoengineering projects and other things. The fund has supported work by Dr Gadian and Dr Neukermans, among others, as well as by Dr Keith himself. But its position is not to fund field tests of cloud-brightening, stratospheric hazing or anything like them. Other sources of philanthropic money may be available, and the cloud-brighteners may well look into them. Dr Keith and his colleagues, though, want their stratospheric experiments to be funded mostly by the government. "I think we have the best chance to have a healthy dialogue if experiments are publicly approved," says Dr Keith.

Geoengineering experiments carried out high-handedly or without due respect for sensible concerns would be damaging. But precedent suggests that such experimentation can be regulated. In the 1990s and 2000s there were a number of large experiments aimed at finding out if adding iron to the oceans would spur photosynthesis in such a way as to move carbon from the atmosphere to the abyss. Though they were billed as investigations of climates past—such fertilisation is thought to have contributed to low ice-age carbon-dioxide levels—the possible application of the process as a form of geoengineering aimed at stabilising future carbon dioxide levels was also an inducement.

In the late 2000s such experiments were discussed by the London Convention, which sets rules about pollution at sea. It was decided that research should be allowed, and a fairly impressive set of regulatory requirements was established. At a meeting on the regulation of geoengineering experiments held in Washington, DC at the beginning of December, some oceanographers argued that this new regulatory system was so strict as to discourage worthwhile research. Other participants argued that that was hard to substantiate, since no one had actually tried to get any such experiments approved since the new rules were drafted—and the reason for that is mostly that oceanographers are split over the value of further research. If this is any precedent, it suggests that geoengineering experiments in the atmosphere could go ahead fruitfully, bringing with them new knowledge, new regulatory frameworks and new disagreements—and no obvious risk of lock-in. ■

Marine pollution

Charting the plastic waters

The amount of plastic in the sea is huge and widely spread

THE "Great Pacific Garbage Patch" lies off the coast of California. But it is not the only place where a system of rotating ocean currents, known as gyres, concentrate floating material, particularly plastic detritus dumped into the sea or washed out from rivers. There is an awful lot of it: at least 268,940 tonnes, a new report estimates. And there may well be even more, mostly invisible to the eye, because the patches of rubbish appear to work like giant shredders, breaking plastic items down into tiny pieces which are then widely dispersed through the world's oceans with potentially devastating consequences for wildlife.

Marcus Eriksen, of the Five Gyres Institute in Los Angeles, worked with an international team of colleagues to build an oceanographic model of floating debris to estimate the amount of plastic in the sea. Their calculations were based on previously published data and observations and samples gathered from expeditions to the North Pacific, North Atlantic, South Pacific, South Atlantic, Indian Ocean and other regions, including the Bay of Bengal, Australia's coastal waters and the Mediterranean. Plastic waste was divided into four sizes: microplastics of 0.33-1mm and 1.01-4.75mm; medium-sized bits of 4.76-200mm, which would typically include plastic bottles; and larger items of more than 200mm.

The results, published this week in *PLOS ONE*, found that just over 75% of the 268,940 tonnes of plastic is accounted for by items measuring more than 200mm. Chunks of polystyrene were the most commonly observed large items, but by weight lost fishing gear, such as floats, lines and nets, accounted for most. As for the number of items in the sea, the researchers calculated this to be 5.25 trillion bits of plastic of all sizes. The vast majority, some 4.8 trillion, are microplastics and these were spread across the world (see map).

Although the number of microplastics appears huge, it was much lower than the researchers expected. The smallest microplastics ought to be more abundant than larger ones, because the tiny ones are continually being degraded into fragments thanks to the effects of sunlight and other weathering processes. In fact the opposite was true, suggesting that some other mechanisms are removing the smallest particles from the oceans' surface.

The researchers surmise that those processes include faster-than-expected shredding of already brittle microplastics into particles that are too tiny for their nets to catch, along with particles being washed onto beaches and material finding its way into the stomachs of marine life and thence their predators. There is also growing evidence that some microbes can biodegrade tiny pieces of plastic. That means the final resting place of plastic at sea may not be in floating patches of rubbish but in the sediment by way of numerous marine creatures, with possibly toxic effects in the food chain.

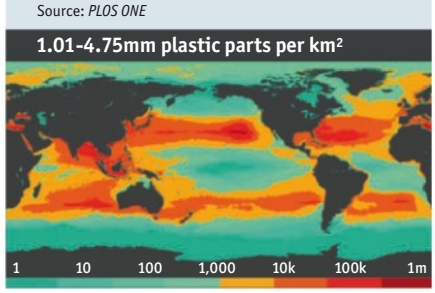
Some schemes have been proposed to try to clean up the plastic waste floating in the sea. But it is hardly practical when more than 90% of that rubbish is smaller

All at sea

Plastic particles floating in the oceans, bn

	0.33-1.00mm	1.01-4.75mm	4.76-200mm	>200mm
North Pacific	688	1160	132	3.0
North Atlantic	324	532	73	2.0
South Pacific	176	269	44	1.0
South Atlantic	106	167	24	0.5
Indian Ocean	455	749	92	2.0
Mediterranean	85	146	16	0.4

Source: *PLOS ONE*



than a grain of rice and is distributed globally, says Dr Eriksen. Much better, he believes, to prevent plastic getting into the oceans in the first place.

Providing better incentives for companies and consumers to recycle plastics would help. Fishermen, he suggests, could be paid to recover gear drifting at sea. But in some cases tougher legislation is probably needed. The Five Gyres Institute, for example, is campaigning to phase out the use of plastic microbeads in facial scrubs and other consumer products in favour of natural alternatives made from such materials as apricot husks. Sewage-treatment plants do not capture all the beads which wash down the drain, so some inevitably end up in the sea. And being so small, no one really knows where they are going. ■

The evolution of birds

A history of birds in 48 genomes

Cheap gene-sequencing and computing produces an avian time machine

ONE reason children are so fond of dinosaurs is that the giant reptiles are reassuringly extinct. They perished after an asteroid hit Earth 65m years ago. That collision kicked off the fifth great mass extinction in the history of the planet, and cleared the way for mammals to expand into a plethora of ecological niches that suddenly became vacant.

But the dinosaurs did not disappear completely. Their descendants can be found gracing tree branches and dinner plates all over the world. Evidence from both genetics and fossils proves that modern birds are descended from the theropods, a category of two-legged dinosaurs that includes *Tyrannosaurus rex*, some of which survived the extinction. Like the mammals, taxonomists suspect that when the asteroid hit, the ancestors of modern birds suddenly found themselves presented with a great evolutionary opportunity.

That theory was given a boost this week with the publication, in *Science*, of the results of a mammoth project to sequence the full genomes of 48 different species of modern bird. When the scientists examined the resulting avian family tree it confirmed that the Neoaves, the order that contains 95% of modern species, arose in a spectacular burst of evolution and diversification just a few million years after the asteroid strike.

The project also illustrates how technology is changing biology. Species used to be assigned their place on the tree of life by their physical and behavioural characteristics, but deciding which characteristics were the most important was tricky. Analysing genes gives biologists a window onto the evolutionary process itself. But technological limitations meant that taxonomists were limited to using only a handful of genes as their building blocks.

What makes the new bird family tree different is that it was constructed from whole genomes. Two developments have made that possible. The first is the rapid decline in the cost of gene-sequencing, which is thousands of times cheaper today than in 2007. The second is the (much slower) increases in computer power. The genomic data thrown off by the project were fed to beefy supercomputers, which spent weeks sifting and comparing the DNA sequences to produce the final tree.

Whole-genome sequencing also allows scientists to examine the evolutionary history of individual traits. The common ancestor of modern birds was a predator, a behaviour that seems to have been lost on several separate occasions. The ability to learn and sing songs (which has intriguing genetic similarities to the human capacity for language) likewise seems to have evolved at least twice.

Nor is the approach limited to birds. A similar project aimed at mammals could be possible with already-sequenced genomes. As DNA sequencing continues to get cheaper, and computers continue to get more powerful, taxonomists' sketches of the tree of life will become better and better approximations of the real thing. ■

The Galápagos islands

Trouble on the cards

A storied scientific outpost is in difficulty as local traders get shirty

IT COULD yet be an exit, through the gift shop. The Charles Darwin Foundation, which runs a research station on one of the Galápagos islands that so captivated the author of "On the Origin of Species", is again on the brink of bankruptcy after decades of financial struggle.

The foundation's principal aim is to help scientists from around the world to carry out research on the archipelago's fantastically diverse ecosystems. That has made the research station a unique locus of expertise, and a force for conservation in its own right. Its efforts have, so far, prevented the extinction of any of the island chain's unique species.

However, the money from scientific institutions is dedicated to well-defined projects. What the foundation needs is more unrestricted financing to pay its 60 staff and to keep the lights on and the internet flowing. Running a research station with all modern conveniences 1,000km off the coast of Ecuador does not come cheap.

That is why in 2010 the foundation brought Swen Lorenz, a former London financier, onto its board. Mr Lorenz, now the chief executive, began to streamline the organisation and to bring in more philanthropic funding from awed visitors. The foundation's $2.5m debt began to plummet.

But Mr Lorenz's grand plan came unstuck when he expanded the research station's gift shop, which sells items like the playing cards pictured. A number of local traders objected, citing unfair competition. The shop was becoming the foundation's largest source of unrestricted funds, but the local government refused its application for a 2014 licence to trade, insisting the shop should sell only foundation-branded souvenirs and clothing. Lacking a licence, the shop shut in July. It will have lost $200,000 in revenue by year's end. The branding requirement would lead to the cancellation of concession contracts, costing the shop $100,000 or so more.



Finch in a pinch

Mr Lorenz says no other traders on the island are subject to the same conditions, and has been fighting to get his case heard outside the tight-knit society of the island chain. That now seems to be happening. The case has caught the attention not just of the Galápagos National Park, which contains the research station, but also Ecuador's ministries of the environment, agriculture and foreign relations.

Given the foundation's value to science and to tourism, the municipal government's objections will probably soon fade. The argument, after all, hinges on T-shirts and trinkets. No doubt Darwin would have peered curiously at the behaviour of some the species on the islands even today.



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England

A once and future realm

The making of the English was a funny business

The English and Their History. By Robert Tombs. *Allen Lane; 1,012 pages; £35. To be published in America by Knopf in February*

WHAT does it mean to be English? There was a time when one of the perks of Englishness was that you did not have to think too hard about such a question. That time has long gone. The recent referendum on Scottish independence inevitably raised the question of English as well as Scottish identity (and, to a lesser degree, Welsh and Irish). The huge immigration of the past two decades raises the same question in all sorts of complicated ways: about one in nine Britons and one in three Londoners was born overseas. The UK Independence Party, which is really an English national party, will most likely set the tone of politics in the run-up to next year's general election.

England is one of the few nations without a state: English people cheer forlornly for England in the World Cup but are citizens of the United Kingdom. The boundaries between "Britishness" and "Englishness" are vague: English people are by nature amphibious—you cannot be English without also being British. But the distinctions are nevertheless real. The English would never order a British breakfast or misremember "England expects" as "Britain expects".

The Act of Union in 1707, which linked England with Scotland and created the United Kingdom, did not create a federal state with new political institutions separate from and above those of England. Rather it created, in Robert Tombs's words, a pantomime horse, with England providing the front legs, setting the common direction in domestic, foreign and imperial matters, and the back legs following, sometimes reluctantly, along.

"The English and Their History" is the perfect starting-point for anyone who wants to grapple with the complexity of the English question. Mr Tombs has marinated himself in the secondary literature. And he writes beautifully; there isn't a lazy sentence in this text. Mr Tombs's achievement is made all the more remarkable by the fact that he is the leading professor of French history at Cambridge: the guy who is supposed to explain the country's troublesome neighbour to England's future rulers rather than decipher the English to themselves and the world.

Mr Tombs errs on occasion. He gallops through the Middle Ages and strolls through the Blair years, relying too much on recent historians at the expense of their often wiser predecessors. He is so relentlessly reasonable that you want him sometimes to bare his teeth. But these are minor quibbles compared with his achievement. He not only draws the broad outline of English history with panache, he illustrates it with a remarkable collection of facts. Who knew that, in the 1880s, the English each used more than 14 pounds of soap a year whereas a French person used only six? Or that King George IV had eight boxing champions as pages at his coronation? Or that Friedrich Engels's "Condition of the English Working Class", which was written in the 1840s, did not come out in English until 1892? He also provides fascinating discussions on what might be termed the art of memory: how the English have interpreted various historic moments—particularly the Norman conquest and the English civil war—and how they have used those moments to construct their national identity.

What is that identity? The basic answer is that to be English is to be heir to an extraordinary history. England is arguably the world's oldest nation state—it existed as a nation before nationalism existed as a notion—and it boasts some of the oldest institutions. Parliament, the monarchy, trial by jury, the law courts: all can claim deep roots in the Middle Ages. Britain is a relative newcomer by comparison.

England's history is as remarkable as it is old. England has not been subjugated since 1066. It has not been torn apart by civil war since the mid-17th century. Eleven people died in England's notorious Peterloo massacre; 10,000 died in the Paris Commune. Yet this peaceable kingdom has been remarkably successful in projecting its power abroad. By the mid-19th century it ruled a quarter of the world's population, using some brutality (its navy forced the Chinese to import opium) but mostly light-touch imperialism. In the late 19th century the Indian civil service employed no more than 2,000 people, fewer than the number who work today for Ofsted, the schools inspectorate.

England's long history inevitably complicates the notion of Englishness. Whenever you think you have found the essence of the English it changes before your eyes. The Victorians thought it lay in Protestant- ▸▸

ism. England is now one of the most secular countries in the world. The post-war generation thought they found it in the stiff upper-lip. Princess Diana's death saw grown men blubbing like schoolgirls. England has sometimes been one of the world's most prudish countries, as in the mid-17th and mid-19th centuries, and sometimes one of the most debauched, as in the mid-18th and today. For most of its history England was one of the most decentralised and voluntaristic countries in the world—with self-governing cities, powerful local governments, volunteers keeping the show on the road. Now, it is one of the most centralised and bureaucratic: the proportion of Britain's public spending controlled by the centre is roughly twice that in France, Italy and Japan, and more than three times that in Germany.

But some things might surely be described as basic to the national character: a willingness to prick pomposity, distrust for grand theoretical schemes, an instinctive enthusiasm for globalisation, an ability to balance tradition with change or Establishment frippery with Nonconformist efficiency, a fondness for compromise but a willingness to avoid fudging when necessary. England's position as part of an island surely explains a lot of this: the sea simultaneously provides what Shakespeare called "a moat defensive" against the continent and a highway to the rest of the world. So does England's enthusiasm for creating self-governing corporations like Mr Tombs's Cambridge College, St John's. Where else would a professional historian of France have the freedom to write a huge history of England and the capacity to express that history in readable English? Mr Tombs describes his book as "a brick for our common house". It is a splendid brick—and one that deserves a place on every educated Englander's bedside table. ■

Intellectual property

A clash of two copyrights

The Copyright Wars: Three Centuries of Trans-Atlantic Battle. By Peter Baldwin. *Princeton University Press; 535 pages; $35*

SHOULD Godot ever appear, he is unlikely to be a woman. Samuel Beckett was known for his near-pedantic stage directions and his aversion to female actors ever playing Estragon or Vladimir. "Women don't have prostates," he explained, justifying why the constantly urinating Vladimir can only be male. If a director tries to stage the play with a female cast, he (or she) is likely to get sued by the Beckett estate.

This story encapsulates the tension at



the centre of Peter Baldwin's "The Copyright Wars": whether intellectual works belong more to the creator or to society. Should an author be allowed to exploit his plays in perpetuity and control how they are performed? Or do even original artists like Beckett stand on the shoulders of other intellectual giants, which would suggest that his works should quickly become part of the social commons for others to build upon? Erring too far in one direction stymies cultural creativity; leaning too far in the other discourages creators.

Many others before Mr Baldwin, a professor of history at the University of California, Los Angeles, have discussed how this balance has been and should be struck. But he is the first to delve deeply—at times even too deeply—into the differences in copyright law between America and continental Europe, and how they came about. Particularly since the second world war, Europe has opted for what Mr Baldwin calls "author's rights". Rooted in romanticism and derived from the idea of natural human rights, European laws have mostly sought to protect creators. If they are treated well, society eventually benefits. Authors' rights are inalienable, even if they do "work-for-hire", meaning to create works as part of an employment.

America's notion of copyright, on the other hand, sees culture more as a commodity. The constitution of the United States frames copyright as a reward that is granted to authors for a limited time to encourage them to be creative. Yet recently America has followed Europe's lead in extending the term of copyright to 70 years after a creator's death—not so much in belated recognition of authors' rights as in a concession to Hollywood and other important rights-holders, which had lobbied for the changes. (In 1998 Disney and other studios even pushed through legislation that extended the copyright on films to 95 years; it became known as the "Mickey Mouse Bill".)

Mr Baldwin leaves no doubt about where he stands. He rails against Europe's "moral rights", which allow authors to determine when and how a work is released. He laments the fact that America has abandoned its "view of copyright as a limited monopoly granted [to] rights owners primarily for socially utilitarian proposes". And he seems pleased that strong authors' rights "no longer command universal respect among the born-digital generation".

There is some truth in this. But overall Mr Baldwin's analysis is too one-sided. Something resembling moral rights may soon be seen as relevant and modern, if authors keep being expropriated by peer-to-peer file-sharing networks and seeing their works digitally mashed-up beyond recognition. Still, "Copyright Wars" is worth a read. It reminds readers that whereas many of today's copyright issues have to do with new technology, they have deep historical and cultural roots. And the book offers one of the best collections of copyright anecdotes. One delicious example: the publishers of the late John Cage, a composer, "have collected royalties on his silent piece '4'33"' and threatened performers of other soundless compositions for infringing on his silence". ■

Culinary analysis

Tasty talk

The Language of Food. By Dan Jurafsky. *W.W. Norton; 272 pages; $26.95 and £17.99*

DINERS can infer a great deal about a restaurant from its menu. Bound in leather and devoid of prices, it hints at Michelin stars; laminated in plastic and offering a choice of proteins for each dish, it does not. The words used are also revealing, according to Dan Jurafsky, a linguist and computer scientist at Stanford University, in "The Language of Food". His decoding of food-related texts is the most original aspect of a work that is entertaining and revealing throughout.

Mr Jurafsky ploughed through the descriptions of 650,000 dishes on 6,500 menus. Mid-range restaurants repeatedly insist that their food is "fresh"; this "overmentioning", he explains, is a symptom of status anxiety. Cheap eateries swear their food is "real". Expensive restaurants avoid such terms. The mere mention that the crab is real or the plums ripe is sufficient to conjure in diners' minds the possibility that they might not be—the "maxim of relevance" in linguistic terms.

Pricey joints also use longer words. Mr Jurafksy calculated that every one-letter increase in the average length of the words

Chefs

Kitchen bwana

Never Trust a Skinny Italian Chef. By Massimo Bottura. *Phaidon; 296 pages; $59.95 and £39.95*

MASSIMO BOTTURA is one of Italy's greatest chefs, renowned for his juxtaposition of intellectual concepts on a plate and his sublime renditions of tortellini or a classical *ragù*. Who else would begin a sumptuously illustrated cookbook with a photograph of a turntable, followed by a story about the trials of an art dealer having his portrait painted? The explanation is simple: music and art are integral parts of Mr Bottura's inspiration, along with the history of Modena, his hometown in Italy's foodiest of foody regions, Emilia Romagna.

For many, Italian *haute cuisine* is a tautology, but Mr Bottura succeeds with his interpretations of food because they are playful, elegant and delicious. Take his "Hare in the Woods", inspired by an event that took place 100 years ago in Paris. Pablo Picasso and Gertrude Stein saw a camouflaged truck passing by, prompting Picasso to shout: "We were the ones who invented that. That is Cubism!" Mr Bottura's version is a plate of hare's blood mixed with foie gras and vegetable powders: the hare is camouflaged in the dish.

Even classic Italian dishes are turned on their head. Mr Bottura's idea for *bollito misto*, which is usually a combination of boiled meats cooked together, is to prepare the meats separately—giving them more flavour—and place them on their ends to look like the Manhattan skyline.

But it is not all a question of reinterpretation. Mr Bottura has silenced classical critics with his tagliatelle with *ragù*. Again, each component of the sauce is cooked separately and mixed together only at the very end, creating a dish of utter simplicity yet profound taste. Each dish is explained in the recipes at the end of the book. But this is more than just a conventional map of how to cook; it is the best study yet of how a highly original and creative chef thinks and works. Mr Bottura has had three Michelin stars since 2012 and his restaurant, Osteria Francescana, has been ranked among the world's best for the past half-decade. It was only a matter of time before he became known on paper too.



Say cheese

describing a dish adds an extra $0.18 to the price. Phrases like "exotic Ethiopian spices" inflate prices too. Such foods would not be exotic to real Ethiopians. Places that label their food thus are not catering to native eaters who consume it every day; "that exotifying or orientalist stance is instead directed at non-native eaters," he writes. Vaguely positive words, however, such as delicious or tasty, "linguistic filler words" used when restaurants have nothing genuinely valuable, such as caviar, to talk about, bring the price down by 9%.

Happy diners turn to similarly non-specific terms of praise, Mr Jurafsky found. Along with the menus, he also analysed 1m online restaurant reviews. Disappointed ones are more specific, detailing the piss-like appearance and skunky flavour of their beer, for instance. They are also more likely to describe their displeasure as a shared experience: "we waited for hours" they grouse, "our entrées were terrible." Such collective grief displays the linguistic symptoms of those suffering the after-effects of minor trauma, argues Mr Jurafsky, when people feel a need to tell stories expressing their negative emotions and seek comfort in groups by emphasising their belonging.

Satisfied customers can be remarkably price-sensitive, if unconsciously so. The pleasures of expensive food are equated with sex; foie gras is seared "seductively" and apple tart is "orgasmic". Cheap food, by contrast, is compared to drugs. Reviewers demand a "fix" of fried chicken and liken cupcakes to crack. By describing sugary, fatty foods as addictive, people distance themselves from their own "sin" of eating it, argues Mr Jurafsky: "It's not my fault: the cupcake made me do it." ■

Cyber-warfare

Turning worm

Countdown to Zero Day: Stuxnet and the Launch of the World's First Digital Weapon. By Kim Zetter. *Crown; 433 pages; $25 and £20*

WHEN America dropped its two atom bombs, Little Boy and Fat Man, over Japan in August 1945, it launched the world into a devastating new era of warfare. Nearly 70 years later, humanity is still trying to contain the fallout. But in its zeal to check nuclear proliferation, America—along with Israel—opened up yet another theatre of war: cyberspace.

In 2007 a computer worm called Stuxnet was detected for the first time by virus-scanning software, although signs of it may have existed unnoticed before that. At least three more versions followed, seeking to wreak havoc upon Iran's uranium-enrichment facility at Natanz. Stuxnet made itself busy. It turned valves on and off and meddled with the centrifuges, wasting uranium and damaging equipment. It succeeded in slowing Iran's uranium enrichment, and by extension its purported nuclear-weapons programmes, making Stuxnet the first documented case of cyber-warfare intended to cause physical damage.

Where Stuxnet fell short was in remaining hidden, thanks to a series of "flubs that should never have occurred", writes Kim Zetter in "Countdown to Zero Day", an authoritative account of Stuxnet's spread and discovery. In June 2010 a tiny antivirus firm in Belarus stumbled upon Stuxnet while investigating a malfunctioning machine in Iran. The worm contained a "zero-day exploit"—a previously undiscovered software bug—that brought it to attention. An unprecedented five "zero-day exploits" were eventually found in the code. Researchers also discovered that Stuxnet had used a stolen digital certificate, the foundation of the internet's web of trust, bringing the worm further renown.

Such attention-grabbing tactics were the first mistake. The second was failing to anticipate the willingness of security experts to make up for the shortcomings of Iranian investigators. Researchers at Symantec, and Kaspersky, an American and a Russian computer-security company, tore apart Stuxnet and its siblings for more than two years in a bid to reveal the full range of their abilities.

Had Ms Zetter, a reporter at *Wired*, stopped at simply recounting this saga, "Countdown to Zero Day" would be an interesting record of an intriguing worm of little interest beyond security specialists. ▸▸

But the book deserves a wider audience for its sobering message about the vulnerability of the systems—train lines, water-treatment plants, electricity grids—that make modern life possible. These industrial control systems are increasingly hooked up to the internet, allowing remote access. Passwords are seldom changed from the systems' defaults. Security updates are rare. Firewalls and network logs are inconsistent. Warnings are ignored. Little surprise, then, that researchers have been able to simulate shutting down energy grids, infiltrating water plants and destroying generators. A 14-year-old in Poland derailed four trams in 2008. Another teenager took down communications at a Massachusetts airport. Utilities today encourage the use of internet-connected "smart meters" in homes. The attackers of tomorrow could very well use them to black out entire cities.

Despite the opportunity, the world has yet to see a sequel to Stuxnet. But "given the varied and extensive possibilities for conducting such attacks," Ms Zetter writes, "…it is only a matter of time until the lure of the digital assault becomes too irresistible for someone to pass up." Containing this new proliferation will be even harder. It takes money, raw materials and large facilities to develop nuclear weapons. A cyberwarrior needs only a computer and an internet connection to wreak havoc. ■

American photography

Past prints

ATLANTA

A showing of press images is a reminder of America's troubled racial history

IN 1956 a photographer named Gordon Parks travelled to Alabama to document the lives of one extended black family. The Thorntons lived under Jim Crow, the oppressive body of laws and customs in the states of the old Confederacy that enforced the separation of the races and denied full citizenship to the descendants of slaves. As the first African-American staff photographer for *Life* magazine, Parks felt strongly about the assignment, and the images he captured are marked as much by human warmth as by smouldering moral outrage.

The resulting 12-page spread appeared in 1956 under the title "The Restraints: Open and Hidden", with a text by a journalist, Robert Wallace, based on Parks's own notes. Published just as the nation was starting its long, tortured struggle to redress centuries of racial inequity, it exposed the broader American public to a discriminatory system, revealing its cruelty but also the resilience of those who struggled to rise above circumstances.

"Segregation Story" at the High Museum of Art in Atlanta allows audiences to revisit this fraught chapter in American history, and to measure how far the nation has come, but also to consider how that bitter legacy still shapes racial perspectives on everything from police brutality to affirmative action. The exhibition includes copies of that issue of *Life* preserved in glass cases like archaeological specimens; the stars of the show are the haunting images from Parks's original slides; most never made it into print.

For all its good intentions, the magazine's photo essay feels like a period piece. The printing is grainy and the essay's social critique is delivered in the soothing tones of a bygone era. Mr Wallace's editorial voice is reassuring, acknowledging the unfairness of the system while being careful not to stir up explosive passions that might prove explosive. Of the 82-year-old patriarch, Albert Thornton—seated stiffly next to his wife in the essay's opening image—Wallace notes (with apparent approval) that, despite his frustrations, "he has no violence in him."



Dressing up didn't make it any better

Shorn of their mediating text, the photographs are more evocative, laying bare the human cost of an inhumane regime. Parks's keen eye for picturesque decay cannot disguise the poverty that characterises so much of this family's material life, a shabbiness most seek to overcome by carrying themselves in public with superhuman dignity. In one of the most poignant images, a gorgeously attired Joanne Wilson, daughter of the elder Thorntons, and her young niece stand outside the door to a cinema that is marked with a neon sign that says "Coloured entrance". How much it costs her to keep up appearances is suggested by the tiniest of details, the strap of her slip that has fallen off her shoulder, the one blemish on the otherwise impeccable façade she presents to the world. In the unguarded moment caught by Parks's camera, the burden seems almost too much.

Unlike many memorable images from the civil-rights era, Parks's photographs are, for the most part, non-confrontational, a cry for justice rather than a call to arms. Only occasionally can the visitor make out the rumble of distant thunder. A photograph of Willie Causey junior, Albert Thornton's 16-year-old grandson, shows him cleaning his shotgun while his young siblings read a book in the background. Violence is implied, but it is offstage.

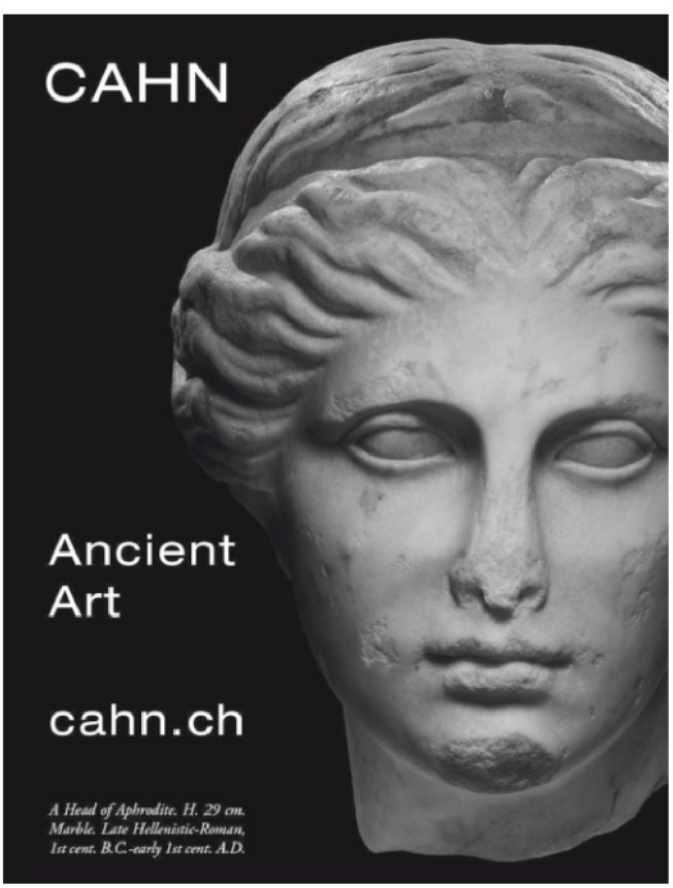
The threat to the status quo posed by Parks and his camera is not immediately apparent in the photographs themselves. To appreciate the insurrectionary nature of this historic project, one must turn to the written testimony of the participants. Parks recalls the ominous atmosphere of rural Alabama in the pages of his diary: "Just a few miles down the road Klansmen are burning and shooting blacks and bombing their churches…[L]ying here in the dark, hunted, I feel death crawling the dusty roads."

Whereas Parks was able to return to friendlier climes, the Thornton clan paid heavily for their courage. Allie Lee Causey, a teacher in an all-black school, was fired, and her husband forced out of business, his life threatened. In the end, the magazine gave the Causey family $25,000 so they could make new lives elsewhere. "Here is a mean place," Allie wrote to her brother. "The story they did on us is true…The work is true, the home is true. But these people are very, very mad." After nearly six decades much of the anger in America has dissipated and many wrongs have been righted, but the truth that Parks captured with his camera, his chronicle of suffering and redemption, of courage in the face of appalling injustice, still possesses an unsettling power. ■

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Appointments

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Vacancy for Director, Internal Audit and Senior Manager, Underwriting & Marketing for Maghreb Region

The African Reinsurance Corporation (**Africa Re**) is a pan-African International Financial Institution, with Headquarters in Lagos (Nigeria). Its shareholding comprises of African States, the AfDB, 108 African insurance and reinsurance companies, IFC, DEG, PROPARCO and IRB-Brasil Re.

Africa Re has both commercial and developmental mission. Its mission is to develop insurance and reinsurance markets in Africa and to develop African economies. That mission is carried out through provision of reinsurance capacity and cover, technical assistance and capacity building to insurance companies.

The Corporation would like to fill the following vacancies which require candidates with exceptional competencies and experience:

1. **Director, Internal Audit (based in Lagos):**

 The successful candidate will supervise the Audit Function across the Group and will report directly to the GMD/CEO and to the Finance and Audit Committee of the Board.

2. **Senior Manager, Underwriting & Marketing for Maghreb Region (based in Casablanca):**

 The successful candidate will be in charge of the marketing, sales and underwriting within his regional market. He/she will report directly to the Regional Director of Casablanca Regional Office.

The Corporation offers a competitive remuneration package comprising fixed pay, variable pay, medical cover, children education subsidy, provident fund, etc.

Interested candidates are requested to visit the Africa-Re website at http://www.africa-re.com/careersandtenders/page/49/current-vacancies for full job descriptions, job requirements and to complete the online employment form.

Closing date for applications is **31 January 2015**.

Appointments

The Republic of Uganda

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

THE THIRD FINANCIAL MANAGEMENT AND ACCOUNTABILITY PROGRAMME (FINMAP III)

REQUEST FOR EXPRESSION OF INTEREST FOR INDIVIDUAL CONSULTANTS

The Government of Uganda is implementing public financial management reforms through the Third Financial Management and Accountability Programme (FINMAP III) with the primary purpose of strengthening public financial management at all levels of government and ensure efficient, effective and accountable use of public resources as a basis for improved service delivery.

As part of Government's effort to consolidate its cash and debt issuance; and management in accordance with its economic policies and regulatory frameworks, a Directorate of Cash and Debt Management has been established under the Ministry of Finance, Planning and Economic Development (MoFPED). MoFPED therefore has identified a need for external support for active Cash management and Debt issuance. Government maintains a number of automated financial management systems for ministries, departments and agencies (MDAs) and a Treasury Single Account Framework is also under implementation to ensure efficient and cost effective cash management of the consolidated fund and other public monies.

It is against this background that The Government of Uganda through the Third Financial Management and Accountability Programme (FINMAP IIII) invites applications for the two (2) consultancy roles below;

1. **Debt Issuance Expert** 2. **Cash Management Expert**

The consultants through the Director/DCM will provide technical support and advisory roles to the Permanent Secretary/Secretary to the Treasury on the issuance and management of all Government debt and cash as well as to develop and implement appropriate policies, procedures and systems in accordance with best practice.

Detailed requirements for the expression of interest including Terms of Reference are available on Ministry of Finance, Planning and Economic Development Website www.finance.go.ug, tel:+256-41-4707900, e-mail: finmap@finance.go.ug

Interested Individual Consultants may obtain further information and/or clarifications from the Third Financial Management and Accountability Programme (FINMAP III) Coordination Office at the address given below, from **Monday to Friday between 0800hrs to 1700hrs**.

The Planned Procurement schedule (subject to change) is as follows:

Activity	Date
a. Publication of notice	**1 December 2014**
b. Closing date for submission of applications	**9 January 2015**
c. Evaluation process	**23 January 2015**
d. Display and communication of Best Evaluated Consultants	**20 February 2015**
e. Contract signature	**29 January 2015**

Sealed Expressions of Interests, with detailed Curriculum Vitae clearly indicating the position applied for should be addressed and submitted to the address below by **1700hrs on 9 January 2015.**

The Programme Coordinator
The Third Financial Management and Accountability Programme (FINMAP III)
Ministry of Finance, Planning & Economic Development

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national ports authority

REQUEST FOR PROPOSAL (RFP)
[RFP NUMBER: TNPA 2014/12/002/CM]

REQUEST FOR PROPOSALS FOR THE DESIGN, DEVELOPMENT, FINANCING, CONSTRUCTION, OPERATION, MAINTENANCE AND TRANSFER OF A CRUISE TERMINAL FACILITY AT THE PORT OF CAPE TOWN ON A PORTION OF LAND WITH BUILDING THEREON, MEASURING 23 406M² AT "E" BERTH FOR A PERIOD OF 20 YEARS.

Transnet National Ports Authority a division of Transnet SOC Ltd, invites all interested parties to respond to the abovementioned RFP.

ONLY BIDDERS who are BBBEE Level 1-4, with a minimum of 25% Black Ownership, need apply. International business enterprises will need to partner with local South African entities in order to achieve the required minimum Level 1-4 BBBEE Rating/Contributor Status Level and 25% Black Ownership in order to participate in terms of the RFP.

The RFP documents may be obtained on and after **Monday, 08 December 2014** from Martha Skosana at 30 Wellington Street, Parktown, Johannesburg or from Xoliswa Mgedesi at 6th Floor, TNPA House, South Arm Road, Port of Cape Town, during office hours from **09h00** to **15h00** on weekdays. **RFP documents will only be available until 15h00 on Wednesday, 17 December 2014.**

PLEASE NOTE: These documents will be available at a non-refundable Bid Document Fee of R4000.00 (Four Thousand Rands) per set (VAT inclusive) and all copies will be controlled and registered. Responses other than those submitted against a controlled issue, will be disqualified.

Payment is to be made into the Transnet National Ports Authority bank account at Standard Bank, Branch: Parktown, Account number: 401947092, Branch Code: 000355, Reference: TNPA 2014/12/002/CM. Proof of payment by way of an official bank deposit slip or EFT statement, together with a valid company letterhead, must be presented when collecting documentation(s).

NO CASH PAYMENTS WILL BE ACCEPTED.

A **COMPULSORY** RFP Briefing Session will be held on **Thursday, 18 December 2014, 10h00-13h30. Details of the Briefing Session are contained in the RFP documents.**

PLEASE NOTE: No Bid documents will be available at the Briefing Session.

PLEASE NOTE: Bidders are permitted to send their representatives with a signed proxy to attend the Compulsory Briefing Session.

Bid Responses are requested **ONLY** from Bidders who have paid for and collected Bid documents, as well as attended the compulsory Briefing Session.

Failure to attend the briefing session will result in disqualification.

This RFP shall close punctually at **10h00 on Tuesday, 05 February 2015, in the Tender Box located at Transnet National Ports Authority, Ground Floor, 30 Wellington Street, Parktown, Johannesburg.** All RFP Submissions must be clearly marked indicating the **RFP Number: TNPA 2014/12/002/CM**

PLEASE NOTE: RFP Submissions received after the closing date will be disregarded.

For more information, please contact:
Mr Johan Claassen or Mrs Xoliswa Mgedesi
Tel: (021) 449 4022 / (021) 449 2337
Fax: (021) 449 3345
Email: cruiserfpprojectcapetown@transnet.net

Transnet fully subscribes to Government's New Growth Path objectives and Supplier Development commitments by Respondents, which will form part of the final scoring to this RFP.

Transnet urges Clients, Suppliers and Service Providers to report any acts of fraud and/or instances of corruption to Transnet's TIP-OFFS ANONYMOUS on 0800 003 056 or *Transnet@tip-offs.com*

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REQUEST FOR EXPRESSIONS OF INTEREST (EOI)

TENDER TITLE: CONSULTANCY TO ESTABLISH A CROSS BORDER TRADE UNIT WITHIN THE TRADE AND INVESTMENT DEPARTMENT

TENDER NUMBER: PRQ20140850

The Ministry of Trade and Industry (MINICOM) with support from TradeMark East Africa seeks to engage the services of a **consultancy firm** to establishing a Cross-border Trade Unit to drive implementation of cross border trade related activities at a national level.
The detailed Terms of Reference for this consultancy and the application form can be obtained at TradeMark East Africa's website http://www.trademarkea.com. All queries quoting the above Tender Title and Number should be emailed to procurement@trademarkea.com. The closing date for applications is **12 January 2015**. Only successful applicants will be contacted.
Interested and qualified consultancy firms must register and apply online ONLY on the TradeMark East Africa procurement portal at the website: http://procurement.trademarkea.com and all attachments must be **10MB** or less.

TMEA cannot answer any query relating to this tender three days or less prior to the submission deadline.

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TANZANIA PORTS AUTHORITY

ADVERTISEMENT
REQUEST FOR PROPOSALS (RFP)

TITLE: SELECTION OF AN INDIVIDUAL CONSULTANT – PROCUREMENT SPECIALIST

NUMBER: PRQ20140753

On behalf of Tanzania Ports Authority (TPA), TMEA seeks to contract an individual consultant – procurement specialist to support the management of the procurement process of Goods, Services and Works within the DGMP, as well as enhancing the procurement capacity of TPA staff.

The Request for Proposals (RFP) document can be obtained at http://www.trademarkea.com/procurement. All queries quoting the above Tender Title and Number should be emailed to procurement@trademarkea.com. The closing date for submission is **16th January 2015 no later than 10.00 a.m. Tanzania time.**

Interested and qualified consultants must register and apply online ONLY on the TMEA procurement portal at the website: http://procurement.trademarkea.com and all attachments must be **5MB** or less.

TMEA cannot answer any query relating to this tender fourteen days or less prior to the submission deadline

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Maastricht Aachen Airport
PUBLIC-PRIVATE-PARTNERSHIP

NOTIFICATION

The Province of Limburg
PO box 5700
6202 MA Maastricht

Contact: Procurement Manager
tendermaa@prvlimburg.nl

Tender Authority: The Province of Limburg, The Netherlands

The Province of Limburg hereby invites interested parties to submit an "Expression of Interest" to participate in the tender process for the concession for the operation (including management and maintenance activities) of Maastricht Aachen Airport (the "Project").

As currently envisioned, the concession for the operation (including management and maintenance activities) will be granted under a ten (10) year Operate-Maintain-Transfer Concession Agreement. Subject to the satisfaction of defined conditions, the ten-year term may be increased to a maximum of twenty-five (25) years. The tender will focus on the delivery of a convincing business plan and a concession fee proposal.

All respondents that submit an "Expression of Interest" shall be registered as a Respondent and will receive the Information Memorandum and the Request for Qualifications (RFQ). Respondents who wish to attend the bidders conference on **February 3, 2015** should register on or before **January 30, 2015**. Respondents, who have submitted their Expression of Interest, will receive the RFQ starting **February 6, 2015**.

Maastricht Aachen Airport is an operational airport and has a sizable full freighter cargo operation and also serves low-cost passenger carriers and charters and has the capacity to grow. It is expected that an experienced operator/entrepreneur will be able to operate Maastricht Aachen Airport as a profitable business.

The Province of Limburg invites all Respondents to submit their qualification statements in accordance with the requirements set forth in the RFQ by **5 p.m. (GMT+2) March 27, 2015**.

Please note that an application to be registered as Respondent and/or the registration as Respondent is not a legal pre-requisite for participation in this tender.

Economic data

% change on year ago

	Gross domestic product			Industrial production	Consumer prices		Unemployment	Current-account balance		Budget balance	Interest rates, %	Currency units, per $	
	latest	qtr*	2014†	latest	latest	2014†	rate, %	latest 12 months, $bn	% of GDP 2014†	% of GDP 2014†	10-year gov't bonds, latest	Dec 10th	year ago
United States	+2.4 Q3	+3.9	+2.3	+4.0 Oct	+1.7 Oct	+1.7	5.8 Nov	-389.2 Q2	-2.3	-2.8	2.16	-	-
China	+7.3 Q3	+7.8	+7.3	+7.7 Oct	+1.4 Nov	+2.1	4.1 Q2§	+206.0 Q3	+2.4	-3.0	3.67§§	6.18	6.07
Japan	-1.3 Q3	-1.9	+0.5	-1.0 Oct	+2.9 Oct	+2.7	3.5 Oct	+6.8 Oct	+0.3	-8.1	0.41	119	103
Britain	+3.0 Q3	+2.8	+3.0	+1.1 Oct	+1.3 Oct	+1.5	6.0 Aug††	-147.5 Q2	-4.5	-5.1	2.03	0.64	0.61
Canada	+2.6 Q3	+2.8	+2.3	+3.9 Sep	+2.4 Oct	+2.0	6.6 Nov	-41.2 Q3	-2.5	-2.4	1.83	1.15	1.06
Euro area	+0.8 Q3	+0.6	+0.8	+0.7 Sep	+0.3 Nov	+0.5	11.5 Oct	+327.3 Sep	+2.3	-2.5	0.68	0.81	0.73
Austria	-0.1 Q3	-1.6	+0.9	-2.2 Sep	+1.6 Oct	+1.5	5.1 Oct	+3.7 Q2	+2.1	-2.5	0.84	0.81	0.73
Belgium	+0.9 Q3	+1.2	+1.1	+3.4 Sep	-0.1 Nov	+0.6	8.6 Oct	+7.4 Jun	-0.3	-3.0	1.01	0.81	0.73
France	+0.4 Q3	+1.1	+0.4	-1.0 Oct	+0.5 Oct	+0.6	10.5 Oct	-40.0 Sep‡	-1.5	-4.4	0.97	0.81	0.73
Germany	+1.2 Q3	+0.3	+1.4	+0.9 Oct	+0.6 Nov	+0.9	6.6 Nov	+289.6 Oct	+7.0	+0.8	0.68	0.81	0.73
Greece	+1.9 Q3	+3.0	+0.8	-0.7 Oct	-1.2 Nov	-1.3	25.9 Aug	+3.1 Sep	+1.5	-4.0	8.60	0.81	0.73
Italy	-0.5 Q3	-0.6	-0.3	-2.9 Sep	+0.2 Nov	+0.2	13.2 Oct	+34.6 Sep	+1.4	-3.0	2.08	0.81	0.73
Netherlands	+1.1 Q3	+0.7	+0.7	+0.4 Oct	+1.0 Nov	+0.7	8.0 Oct	+89.9 Q2	+9.6	-2.7	0.82	0.81	0.73
Spain	+1.6 Q3	+2.0	+1.3	+0.6 Oct	-0.4 Nov	-0.1	24.0 Oct	+2.1 Sep	+0.2	-5.7	1.88	0.81	0.73
Czech Republic	+2.7 Q3	+1.6	+2.4	+3.2 Oct	+0.6 Nov	+0.5	7.1 Nov§	-0.5 Q2	-0.4	-1.6	0.70	22.2	19.9
Denmark	+0.9 Q3	+1.9	+0.9	-2.4 Oct	+0.5 Nov	+0.7	5.0 Oct	+22.6 Oct	+6.4	-1.3	0.97	5.99	5.42
Hungary	+3.2 Q3	+1.9	+3.0	+1.9 Oct	-0.4 Oct	nil	7.1 Oct§††	+5.9 Q2	+4.2	-2.9	3.55	247	218
Norway	+2.1 Q3	+2.0	+2.3	+9.9 Oct	+1.9 Nov	+2.0	3.7 Sep‡‡	+49.2 Q3	+11.1	+12.1	1.85	7.17	6.11
Poland	+3.4 Q3	+3.6	+3.3	+1.6 Oct	-0.6 Oct	+0.1	11.4 Nov§	-6.9 Sep	-1.2	-3.5	2.61	3.36	3.04
Russia	+0.7 Q3	na	+0.6	+3.0 Oct	+9.1 Nov	+7.6	5.1 Oct§	+60.3 Q3	+2.9	+0.4	12.44	54.7	32.7
Sweden	+2.1 Q3	+1.3	+2.0	+0.1 Oct	-0.1 Oct	-0.1	7.5 Oct§	+36.5 Q3	+5.8	-2.2	1.04	7.53	6.53
Switzerland	+1.9 Q3	+2.6	+1.6	-0.4 Q3	-0.1 Nov	nil	3.1 Nov	+78.4 Q2	+11.3	+0.3	0.36	0.97	0.89
Turkey	+1.7 Q3	na	+3.0	+4.5 Oct	+9.2 Nov	+8.9	10.1 Aug§	-46.7 Sep	-6.0	-2.6	8.17	2.26	2.03
Australia	+2.7 Q3	+1.4	+3.1	+3.8 Q3	+2.3 Q3	+2.5	6.3 Nov	-42.9 Q3	-2.8	-2.6	2.93	1.20	1.09
Hong Kong	+2.7 Q3	+6.8	+2.4	+2.2 Q2	+5.2 Oct	+4.3	3.3 Oct‡‡	+4.6 Q2	+1.7	+0.8	1.84	7.75	7.75
India	+5.3 Q3	+8.1	+6.0	+2.5 Sep	+5.5 Oct	+7.3	8.8 2013	-23.4 Q3	-2.0	-4.3	7.91	62.0	61.1
Indonesia	+5.0 Q3	na	+5.0	+8.3 Oct	+6.2 Nov	+6.3	5.9 Q3§	-24.0 Q3	-3.1	-2.3	na	12,337	11,985
Malaysia	+5.6 Q3	na	+6.0	+5.4 Sep	+2.8 Oct	+3.1	2.7 Sep§	+18.0 Q3	+5.7	-3.6	4.09	3.48	3.21
Pakistan	+5.4 2014**	na	+5.4	+1.8 Sep	+4.0 Nov	+7.3	6.2 2013	-3.1 Q3	-2.6	-5.5	11.55†††	101	108
Singapore	+2.8 Q3	+3.1	+3.4	+0.2 Oct	+0.1 Oct	+1.2	1.9 Q3	+58.9 Q3	+19.9	+0.5	2.25	1.31	1.25
South Korea	+3.3 Q3	+3.7	+3.5	-3.2 Oct	+1.0 Nov	+1.5	3.1 Nov§	+83.5 Oct	+5.5	+0.5	2.76	1,102	1,052
Taiwan	+3.6 Q3	+2.6	+3.6	+9.0 Oct	+0.9 Nov	+1.4	3.9 Oct	+65.0 Q3	+11.8	-1.4	1.63	31.2	29.6
Thailand	+0.6 Q3	+4.4	+1.4	-2.9 Oct	+1.3 Nov	+2.1	0.8 Oct§	+10.2 Q3	+2.8	-2.1	2.74	33.0	32.1
Argentina	nil Q2	+3.6	-0.6	-1.8 Oct	— ***	—	7.5 Q3§	-6.2 Q2	-1.1	-2.6	na	8.56	6.26
Brazil	-0.2 Q3	+0.3	+0.2	-3.6 Oct	+6.6 Nov	+6.3	4.7 Oct§	-84.4 Oct	-3.8	-5.0	12.51	2.61	2.31
Chile	+0.8 Q3	+1.5	+2.0	-0.2 Oct	+5.4 Nov	+4.4	6.4 Oct§‡‡	-5.0 Q3	-1.4	-2.3	4.43	616	530
Colombia	+4.3 Q2	-0.6	+5.0	+1.7 Sep	+3.7 Nov	+2.9	7.9 Oct§	-14.9 Q2	-4.3	-1.5	7.24	2,393	1,931
Mexico	+2.2 Q3	+2.0	+2.1	+3.0 Sep	+4.2 Nov	+3.9	4.7 Oct	-25.4 Q3	-1.9	-3.6	6.08	14.5	12.9
Venezuela	+1.0 Q4	+3.6	-3.1	+0.8 Sep	+63.4 Aug	+62.2	7.0 Sep§	+6.9 Q3	+0.8	-12.2	15.47	12.0	6.29
Egypt	+3.7 Q2	na	+2.2	+30.4 Sep	+9.1 Nov	+10.7	13.1 Q3§	-2.4 Q2	-2.4	-12.0	na	7.15	6.89
Israel	+2.5 Q3	-0.4	+2.2	+4.8 Sep	-0.3 Oct	+0.5	5.7 Oct	+8.5 Q2	+2.9	-3.1	2.36	3.93	3.49
Saudi Arabia	+4.0 2013	na	+4.1	na	+2.6 Oct	+2.8	5.6 2013	+139.2 Q2	+13.1	+1.3	na	3.75	3.75
South Africa	+1.4 Q3	+1.4	+1.6	+2.1 Oct	+5.8 Nov	+6.2	25.4 Q3§	-19.7 Q3	-5.0	-4.4	7.73	11.6	10.4

Source: Haver Analytics. *% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. ‡New series. **Year ending June. ††Latest 3 months. ‡‡3-month moving average. §§5-year yield. ***Official number not yet proven to be reliable; The State Street PriceStats Inflation Index, Oct 41.05%; year ago 18.99% †††Dollar-denominated bonds.



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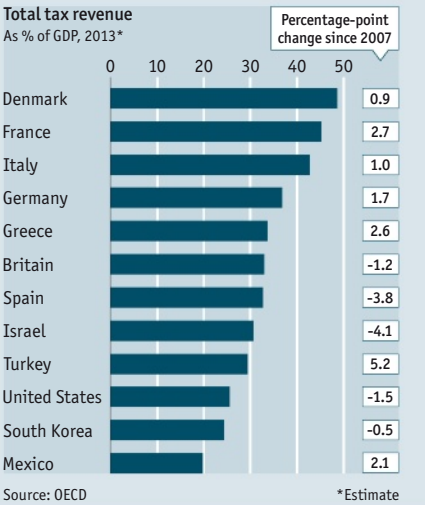
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Markets

	Index Dec 10th	% change on one week	% change on Dec 31st 2013 in local currency	% change on Dec 31st 2013 in $ terms
United States (DJIA)	17,533.2	-2.1	+5.8	+5.8
China (SSEA)	3,079.9	+5.8	+39.1	+36.3
Japan (Nikkei 225)	17,412.6	-1.7	+6.9	-5.4
Britain (FTSE 100)	6,500.0	-3.2	-3.7	-8.7
Canada (S&P TSX)	13,853.0	-6.1	+1.7	-5.8
Euro area (FTSE Euro 100)	1,036.3	-2.8	+1.6	-8.4
Euro area (EURO STOXX 50)	3,150.9	-3.0	+1.3	-8.7
Austria (ATX)	2,234.5	-2.1	-12.3	-20.9
Belgium (Bel 20)	3,254.8	-1.3	+11.3	+0.3
France (CAC 40)	4,227.9	-3.7	-1.6	-11.3
Germany (DAX)*	9,799.7	-1.7	+2.6	-7.6
Greece (Athex Comp)	893.7	-11.3	-23.1	-30.7
Italy (FTSE/MIB)	19,217.7	-3.8	+1.3	-8.7
Netherlands (AEX)	416.7	-2.8	+3.7	-6.5
Spain (Madrid SE)	1,054.4	-4.2	+4.2	-6.1
Czech Republic (PX)	994.8	-2.5	+0.6	-10.2
Denmark (OMXCB)	688.2	-1.1	+21.6	+9.9
Hungary (BUX)	17,622.0	+2.0	-5.1	-17.2
Norway (OSEAX)	594.7	-4.2	-1.3	-16.5
Poland (WIG)	52,477.4	-2.5	+2.3	-8.1
Russia (RTS, $ terms)	855.1	-9.9	-1.3	-40.7
Sweden (OMXS30)	1,452.8	-0.8	+9.0	-7.0
Switzerland (SMI)	9,020.8	-1.6	+10.0	+0.9
Turkey (BIST)	84,126.3	-0.9	+24.1	+17.7
Australia (All Ord.)	5,237.1	-1.2	-2.2	-8.8
Hong Kong (Hang Seng)	23,524.5	+0.4	+0.9	+1.0
India (BSE)	27,831.1	-2.2	+31.5	+31.1
Indonesia (JSX)	5,165.4	nil	+20.9	+19.2
Malaysia (KLSE)	1,765.5	+0.4	-5.4	-11.0
Pakistan (KSE)	31,781.7	-0.3	+25.8	+31.1
Singapore (STI)	3,325.8	+0.7	+5.0	+1.1
South Korea (KOSPI)	1,945.6	-1.2	-3.3	-7.4
Taiwan (TWI)	9,032.2	-1.6	+4.9	+0.2
Thailand (SET)	1,559.6	-2.2	+20.1	+19.7
Argentina (MERV)	8,279.0	-14.4	+53.6	+17.0
Brazil (BVSP)	49,548.1	-5.3	-3.8	-12.9
Chile (IGPA)	18,926.7	-1.7	+3.8	-11.5
Colombia (IGBC)	11,091.1	-7.2	-15.1	-31.5
Mexico (IPC)	41,372.7	-4.0	-3.2	-12.6
Venezuela (IBC)	3,552.8	+20.2	+29.8	na
Egypt (Case 30)	9,404.2	+1.1	+38.6	+34.7
Israel (TA-100)	1,314.0	-0.1	+8.8	-3.9
Saudi Arabia (Tadawul)	8,411.0	-6.1	-1.5	-1.5
South Africa (JSE AS)	48,745.4	-2.2	+5.4	-4.7

Tax revenue

Average tax revenue rose to 34.1% of GDP last year in the OECD, a club mostly of rich countries, the highest tax take since 2007. During the financial crisis in 2009 the tax-to-GDP ratio fell to a low of 32.7%. Turkey has seen the biggest increase—5.2 percentage points since 2007, thanks largely to higher revenues from taxes on goods and services and social-security contributions. But its tax take still amounts to less than a third of its GDP. Over the same period, France's tax burden has risen by 2.7 percentage points, to a hefty 45% of GDP. That is second only to Denmark (48.6%). Mexico has the lowest tax take in the OECD, with revenues equivalent to less than a fifth of its GDP.



Other markets

	Index Dec 10th	% change on one week	% change on Dec 31st 2013 in local currency	% change on Dec 31st 2013 in $ terms
United States (S&P 500)	2,026.1	-2.3	+9.6	+9.6
United States (NAScomp)	4,684.0	-1.9	+12.1	+12.1
China (SSEB, $ terms)	282.9	+1.3	+13.8	+11.5
Japan (Topix)	1,406.8	-1.6	+8.0	-4.4
Europe (FTSEurofirst 300)	1,357.2	-3.1	+3.1	-7.1
World, dev'd (MSCI)	1,698.4	-2.4	+2.2	+2.2
Emerging markets (MSCI)	958.7	-2.8	-4.4	-4.4
World, all (MSCI)	414.8	-2.4	+1.5	+1.5
World bonds (Citigroup)	907.0	+0.7	nil	nil
EMBI+ (JPMorgan)	687.5	-2.1	+5.5	+5.5
Hedge funds (HFRX)	1,211.1§	-0.8	-1.2	-1.2
Volatility, US (VIX)	18.5	+12.5	+13.7	(levels)
CDSs, Eur (iTRAXX)†	60.2	+6.4	-19.3	-27.3
CDSs, N Am (CDX)†	68.1	+10.8	-1.5	-1.5
Carbon trading (EU ETS) €	6.5	-5.4	+29.4	+16.6

Sources: Markit; Thomson Reuters. *Total return index. †Credit-default-swap spreads, basis points. §Dec 9th.

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The Economist commodity-price index

2005=100

	Dec 2nd	Dec 9th*	% change on one month	% change on one year
Dollar Index				
All Items	155.8	156.4	-1.1	-5.7
Food	174.3	177.0	+0.5	-4.0
Industrials				
All	136.6	134.9	-3.3	-7.9
Nfa†	124.1	123.4	-3.5	-22.1
Metals	141.9	139.9	-3.2	-1.1
Sterling Index				
All items	181.0	181.3	nil	-1.3
Euro Index				
All items	156.2	156.5	-1.1	+4.5
Gold				
$ per oz	1,199.5	16,252.5	1,305.9	1,188.2
West Texas Intermediate				
$ per barrel	67.1	63.8	-18.1	-35.3

Sources: Bloomberg; CME Group; Cotlook; Darmenn & Curl; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ. *Provisional †Non-food agriculturals.

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From glamour to disgrace

Jeremy Thorpe, former leader of Britain's Liberals, died on December 4th, aged 85

WHEN he came to write down the highlights of his life in 1999—his physical faculties, though not mind or memory, already crippled by Parkinson's disease—Jeremy Thorpe devoted a scant nine pages to what the press had called "the trial of the century". This was his appearance, at the Old Bailey in 1979, on charges of incitement to murder and conspiracy to murder Norman Scott, a stable boy and former male model who claimed to have had an affair with him in the 1960s, when homosexual acts were still a criminal offence. Mr Thorpe was acquitted, tossing the cushions out of the dock in jubilation. The trial, he wrote, had been based on mere fantasies and delusions. He had never doubted for a moment what the outcome would be.

Where he hoped his reputation would rest was on what he had done for the Liberal Party in the 1960s and 1970s. The once-great governing party of Asquith, Churchill and Lloyd George was, by 1950, on the brink of extinction, with a mere six MPs. Dandyish young Mr Thorpe, his political allegiance as defiantly and romantically outmoded as the waistcoats and watch-chain he always wore, decided therefore to be a Liberal, despite his Tory parents. It was a choice influenced partly by his friends the Lloyd Georges, partly by admiration for Roosevelt's New Deal in America, and by hatred of discrimination in all its forms. By tireless canvassing, witty public speaking and a finger-snap memory ("How is your mother's arthritis, Mrs Smith?"), his brown homburg like an exclamation among the hay-bales and hedges, he narrowly won back the rural constituency of North Devon in 1959. By February 1974 his majority there was 11,000. All told he held the seat for 20 years, until the trial.

Long before he became party leader in 1967, scattered signs implied a Liberal revival. A run of by-election victories—Torrington in 1958, his own in North Devon, Orpington in 1962—gave grounds for hope. In the mid-1960s he drew up a list of winnable seats, sending agents to them and setting up local associations to finance campaigns. He was constantly on TV talk shows. As leader he criss-crossed the country like a raincoated dervish, by helicopter and, on a coastal tour, by newfangled Hovercraft. On posters his handsome, aristocratic face proclaimed him "The Man" and challenged voters to change their ways.

In the 1974 election the Liberal vote trebled, from 2m in 1970 to 6m. To his frustration this translated, under Britain's voting system, to a mere 14 MPs. But it was enough of a surge to rattle both Labour and the Tories, and saw him invited by Edward Heath to Downing Street with murmurs of a coalition and a ministerial job. Neither happened, and from that point the party's fortunes reversed. Without electoral reform, he conceded, a third party in Britain would always be at a profound disadvantage. It also would not help (though this he never conceded) if its leader led a cloak-and-dagger life and ended up in the dock.

One hit-man and a dog

In his early years as an MP, the most damaging public rumour about him was that his manifest passion for politics was for the game only, the machinations, duels and plots, and not for real social or constitutional change. This was true enough, in part. He revelled in the high-level social life (especially, since he had once been the best violinist at Eton, the chance of friendship with Menuhin, Britten and Rostropovitch). He set dinner-tables on a roar with his mimicry of Eden and Macmillan and his instant quips: seeing one man reeling from an encounter with Lady Violet Bonham-Carter, he pronounced him to be suffering "ultra-violet radiation". Yet he took seriously Lloyd George's advice to "lean on his constituency", and was not afraid to take a "civilised" anti-hanging, pro-immigrant, pro-Europe line with the voters of North Devon, who thought otherwise.

What could not be mentioned was his vigorous homosexual life: picking up rent boys in Piccadilly and the King's Road, or using the established, clandestine, gay network at the National Liberal Club. Ever the exhibitionist and risk-taker, confident of social success even as a child, he did not much care to conceal what he was doing. In Devon he and Henry Upton, the blond and sporty heir to Viscount Templeton, would race about the lanes together in Upton's Aston Martin. One-night lovers were told he was an MP, and some were sent letters on House of Commons stationery. In 1962 the Chelsea police were handed missives written by him to Norman Scott, aka "Bunny". A fellow Liberal MP, Peter Bessell, was despatched to get back what letters he could from Mr Scott and to pay him for his silence. The BBC has only now aired an interview with Dennis Meighan who, in 1975, paid from party funds, trailed Mr Scott to Exmoor, shot his dog and made it clear he would be next. Someone "high in the Liberal Party", he said, had sent him.

Confident as ever, Mr Thorpe knew that the police, the judiciary, the BBC, MI5, the attorney-general and the home secretary were on his side. The establishment, as well as his party, closed ranks, all believing, as one detective inspector said, that a man "of that calibre" would not behave that way. But by 1979 even acquittal could not save his reputation. And so he fell; and with him, inevitably, the party he had so tirelessly and glamorously re-energised, perhaps never to so sparkle again. ■

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The Economist Which MBA?

The Economist's
MBA Case Study Competition



The Economist has launched its first-ever MBA Case Study Competition. Twenty-four teams from business schools around the globe were tasked with evaluating Zillow's $3.5 billion dollar acquisition of rival real estate website Trulia in a stock-only transaction. Each team submitted a written and video proposal to solve the problem highlighted in the case study.

Cast your vote for the team with the most compelling presentation in our MBA Case Study Competition at: economist.com/case

Prizes

First place receives $10,000
Second place receives $5,000
Third place receives $3,000
People's Choice receives $3,000

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